DISCLAIMER

Limit of Liability and Disclaimer of Warranty: The publisher has used its best efforts in preparing this book, and the information provided herein is provided "as is." TRAIN2INVEST Inc or its agents or its employees or its principals makes no representation or warranties with respect to the accuracy or completeness of the contents of this book and specifically disclaims any implied warranties of merchantability or fitness for any particular purpose and shall in no event be liable for any loss of profit or any other commercial damage, including but not limited to special, incidental, consequential, or other damages.

Trademarks: This book identifies product names and services known to be trademarks, registered trademarks, or service marks of their respective holders. They are used throughout this book in an editorial fashion only. In addition, terms suspected of being trademarks, registered trademarks, or service marks have been appropriately capitalized, although TRAIN2INVEST Inc. cannot attest to the accuracy of this information. Use of a term in this book should not be regarded as affecting the validity of any trademark, registered trademark, or service mark. TRAIN2INVEST Inc. is not associated with any product or vendor mentioned in this book.

TRAIN2INVEST INC does NOT provide investment advice or investment recommendations. All participants are fully aware that examples & other instructions (verbal – implicit or explicit and any other form of communication) will not and cannot be constituted as a recommendation or advice for investment purposes.

FOR EDUCATION PURPOSES ONLY

Fortis Inc (FTS.TO)

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

6M Daily: **52W High** $ 65.26 (Nov 1, 2021) **52W Low** $ 48.45 (Oct 13, 2022)

Fortis Inc (TSX : FTS)					
Year	**Declaration Date**	**Ex-Dividend Date**	**Record Date**	**Payable Date**	**Dividend $ Amount**
2022	28-Sep-22	16-Nov-22	17-Nov-22	01-Dec-22	$ 0.57
2022	27-Jul-22	18-Aug-22	19-Aug-22	01-Sep-22	$ 0.54
2022	10-Feb-22	16-May-22	17-May-22	01-Jun-22	$ 0.54
2022	18-Nov-21	14-Feb-22	15-Feb-22	01-Mar-22	$ 0.54
2022 Total:					**$ 2.17**
2021	29-Sep-21	16-Nov-21	17-Nov-21	01-Dec-21	$ 0.54
2021	28-Jul-21	18-Aug-21	19-Aug-21	01-Sep-21	$ 0.51
2021	11-Feb-21	14-May-21	17-May-21	01-Jun-21	$ 0.51
2021	18-Nov-20	12-Feb-21	16-Feb-21	01-Mar-21	$ 0.51
2021 Total:					**$ 2.05**
2020	23-Sep-20	17-Nov-20	18-Nov-20	01-Dec-20	$ 0.51
2020	29-Jul-20	18-Aug-20	19-Aug-20	01-Sep-20	$ 0.48
2020	12-Feb-20	14-May-20	15-May-20	01-Jun-20	$ 0.48
2020	20-Nov-19	14-Feb-20	18-Feb-20	01-Mar-20	$ 0.48
2020 Total:					**$ 1.94**

Average Analyst Ratings

3 MTHS AGO	2 MTHS AGO	1 MTH AGO	CURRENT
Hold	Hold	Hold	Hold
2.44	2.44	2.44	2.56
Based on **9** analysts	Based on **9** analysts	Based on **9** analysts	Based on **9** analysts

RATINGS VALUES: Strong Buy = 5 Moderate Buy = 4 Hold = 3 Moderate Sell = 2 Strong Sell = 1

Ratings Breakdown

3 MTHS AGO

Hold

Based on **9** analysts

2 MTHS AGO

Hold

Based on **9** analysts

1 MTH AGO

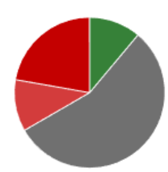
Hold

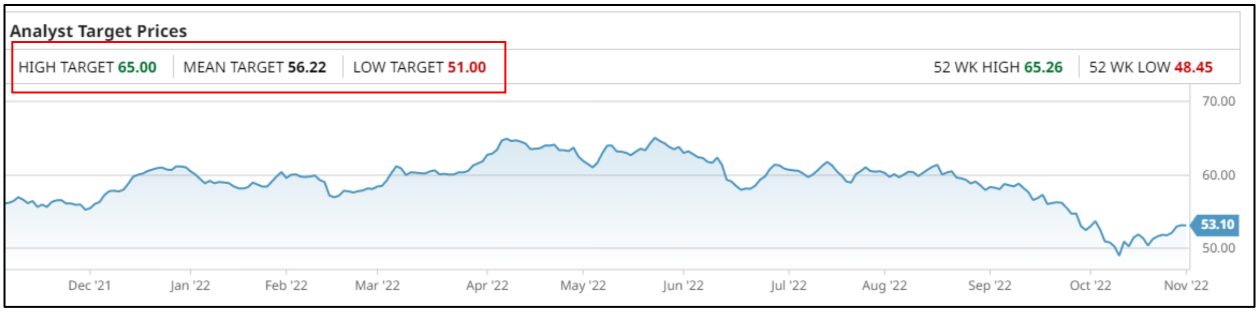
Based on **9** analysts

CURRENT

Hold

Based on **9** analysts





MORNINGSTAR ANALYSIS

Morningstar's Analysis

Summary | Competitors | Bulls Say/Bears Say

Bulls Say

- Fortis operates a stable business profile of regulated operations, offering a strong base for consistent earnings and dividend growth.
- With Fortis' capital expenditure plan in the coming years, we forecast earnings will grow 6% annually through 2026.
- Fortis has paid consecutive quarterly dividends for more than four decades and raised the dividend faster than most of its peers in recent years.

Bears Say

- The Canadian regulatory environment offers lower allowed returns than in the U.S.
- Management's previous zeal for U.S. diversification increases the risk that the company will overpay for acquisitions, though management has recently wisely set its focus on executing on its attractive internal growth opportunities.
- As with all regulated utilities, rising interest rates will raise financing costs and could make the dividend less attractive for income investors.

Fortis Continues Impressive Track Record of Finding Additional Investment Opportunities

Analyst Note Updated Oct 31, 2022

We are maintaining our CAD 57 per-share fair value estimate after Fortis reported third-quarter adjusted earnings of CAD 0.71 per share compared with CAD 0.64 in the same year-ago period. The company initiated a 4% to 6% dividend growth outlook through 2027, in line with our estimates. A 19% drop in Fortis' stock price since early May leaves the stock trading at an 8% discount to our fair value estimate as of Oct. 28. Our narrow economic moat and stable moat trend ratings remain unchanged.

Fortis management's new five-year capital investment plan continues their impressive track record of finding additional growth opportunities. The CAD 22.3 billion 2023-27 plan represents a CAD 2.3 billion increase from the company's previous capital investment plan. The plan supports over 6% annual rate base growth through 2027. The company expects no additional equity to fund this plan besides the company's dividend reinvestment program.

The capital investment plan primarily focuses on the company's three largest utilities: ITC, Fortis BC, and UNS Energy. Investments include reliability and resiliency upgrades, grid security, transmission, natural gas infrastructure, and clean energy. We continue to expect additional growth opportunities beyond management's plan focused in those same areas, particularly in the Midwest given the region's significant electric transmission needs. Inflation and foreign exchange also affected the plan.

Regulatory activity continues across Fortis' subsidiaries. We expect constructive outcomes, but we remain cautious on the company's pending rate case filing in Arizona.

In the quarter, Fortis invested CAD 2.9 billion, putting it on track to invest CAD 4 billion this year. Earnings in the quarter benefited from continued investment increasing the rate base, a higher contribution from its Arizona and New York utilities, increased electricity production in Belize, and favorable foreign-exchange rates.

Business Strategy and Outlook

Updated Oct 31, 2022

Fortis manages regulated electric and gas utilities and independent transmission assets across North America. Acquisitions have made Fortis predominantly a U.S. utility, with over half of rate base at its U.S. operations.

Its prized asset in the United States is ITC Holdings, which gives Fortis an opportunity to benefit from a long runway of U.S. transmission investment opportunities from aging infrastructure to supporting renewable energy growth. Regulatory treatment is constructive, with ITC's allowed returns on equity higher than state-allowed returns and forward-looking ratemaking reducing regulatory lag.

ITC is well positioned to secure additional transmission investments, particularly within MISO. MISO also recently announced the first set of projects of its long-range transmission plan with an estimated $10 billion in costs. ITC estimates its total investment opportunity could be $1.4 billion to $1.8 billion, as it has right of first refusal in Michigan and Iowa as well as opportunities to competitively bid on projects.

UNS Energy offers faster growth than its U.S. peers thanks to the area's population growth and transition to cleaner generation. However, regulation in the region has become more challenging. The outcome of a recently filed rate case will be a key determinant of regulatory constructiveness in Arizona. New York can also be a difficult regulatory environment, which could pressure returns, but management has proved adept at managing regulatory relationships.

Fortis' main regulated Canadian operations are in British Columbia, Alberta, and Newfoundland. These relatively low-risk operations result in stable earnings and help fund consistent dividend growth. Returns are lower in Canada because of a lower cost of capital from a lower equity component compared with its U.S. counterparts.

Management has continued to execute on numerous capital growth opportunities, which should support more than 6% rate base growth and dividend growth through 2026. We expect the company to invest CAD 21.6 billion, supporting our earnings outlook. The capital investment plan is focused at the company's three largest utilities: ITC, Fortis BC, and UNS Energy.

Economic Moat Updated Oct 31, 2022

We assign Fortis a narrow moat, with earnings from narrow-moat regulated gas and electric assets and wide-moat ITC.

For the regulated gas and electric operations, service territory monopolies and efficient scale advantages are the primary sources of an economic moat. Regulators typically grant regulated utilities exclusive rights to charge customers rates that allow the utilities to earn a fair return on and return of the capital they invest to build, operate, and maintain their distribution networks. In exchange for regulated utilities' service territory monopolies, regulators set returns at levels that aim to minimize customer costs while offering fair returns for capital providers.

This implicit contract between regulators and capital providers should, on balance, allow regulated utilities to achieve at least their costs of capital, though observable returns might vary in the short run based on demand trends, investment cycles, operating costs, and access to financing. Intuitively, utilities should have an economic moat based on efficient scale, but in some cases regulation offsets this advantage, preventing excess returns on capital. The risk of adverse regulatory decisions precludes regulated utilities from earning wide economic moat ratings. However, the threat of material value destruction is low, and normalized returns exceed costs of capital in most cases, leaving us comfortable assigning narrow moats to many regulated utilities.

We believe ITC's efficient scale competitive advantage gives it a wide moat. Competitors have little incentive to build competing transmission lines if one that ITC owns already is serving a market's full capacity. Capital costs for new transmission lines are too high and incremental benefits too low to offer sufficient returns on invested capital for two competing transmission owners. In addition, ITC benefits from regulatory protection. The Federal Energy Regulatory Commission approves new transmission lines only if there is a demonstrated need for new capacity.

In exchange for regulatory protection, ITC must charge rates based on a formula that allows ITC to recover its expenses and earn a return on investment. The formula rate mechanism considers forecast expenses, investment base, revenue, and network load each year, and then adjusts annually to true up ITC's returns. This rate treatment is more investor-friendly than typical backward-looking rates that require a utility to invest the capital before collecting a return on that capital. We believe the transparency and predictability of the formula rate mechanism results in a below-average cost of capital for ITC and supports stable cash returns. ITC's competitive advantages and favorable FERC regulation have allowed ITC to earn well above its cost of capital.

Fair Value and Profit Drivers Updated Oct 31, 2022

Our fair value estimate is CAD 57 per share.

We assume consistent regulatory treatment at the Canadian and U.S. utilities. We forecast approximately CAD 21.6 billion of total capital investment at the regulated gas and electric utilities through 2026.

Our utility earnings growth estimate relies on continued customer growth and execution of Fortis' capital investment program. On a consolidated basis, we forecast 6% annual earnings growth and dividend growth during the next five years.

In our discounted cash flow valuation, we use a 6.0% cost of capital based on a 7.5% cost of equity. This is lower than the 9% rate of return we expect investors will demand for a diversified equity portfolio, reflecting Fortis' lesser sensitivity to the economic cycle and lower degree of operating leverage. We incorporate $4 per share of incremental value to better recognize the benefits accruing to Fortis from having issued debt at coupon rates far below our cost of debt.

Risk and Uncertainty Updated Oct 31, 2022

We give Fortis a Morningstar Uncertainty Rating of Low.

Fortis' key risk to future earnings is regulatory uncertainty. The company faces regulatory risks that create uncertainties around costs and allowed returns, especially given the significant capital expenditure plan through 2026. A recently filed rate case in Arizona is the company's biggest test given the state's deteriorating regulatory outlook. Fortis is also exposed to political and economic instability at its Caribbean operations.

We believe FERC's formula rate-setting methodology is the most stable and least subject to political influence of any utility regulation in the U.S. FERC recently proposed eliminating the 50-basis-point adder currently given to regional transmission organization members, like ITC, which could lower allowed returns on future projects.

Fortis operates natural gas distribution utilities. While we think natural gas will remain vital for heating and electricity generation across its service territories for the foreseeable future, there is risk that policymakers expedite the shift away from natural gas.

Fortis faces environmental, social, and governance risk, although we consider its risk lower than its peers' since only 5% of Fortis' assets are fossil fuel. Across its service territories, regulators and politicians are embracing tighter policies on carbon emissions and greater restrictions on coal generation. Fortis is addressing this risk through its base capital investment program, retiring coal power plants and replacing them with renewable generation and battery storage. Fortis' goal to reduce carbon emissions by 75% by 2035 is in line with its utility peers. Regulators across its jurisdictions are supporting this transition.

As with all regulated utilities, Fortis faces the risk of an inflationary environment that would raise borrowing costs and make other investments more attractive for income-seeking investors.

Capital Allocation Updated Oct 31, 2022

We assign Fortis a Standard capital allocation rating. The rating reflects our assessment of Fortis' balance sheet strength, management's investment decisions, and plans to return capital to shareholders.

We forecast the company will reduce its dividend payout to approximately 70% of earnings by the end of our five-year outlook, a level we view as appropriate given the high quality and relatively stable nature of Fortis' regulated assets. We expect the balance sheet to remain strong, in line with its regulatory requirements and supported by the company's low revenue cyclicality and operating leverage. We expect the company's investment strategy to focus on growing through investments in regulated assets, which we think is a reasonable approach.

Management had a history of dealmaking in the U.S., but we think Fortis' shareholders are better off as management focuses on reinvesting capital in the company's long list of internal growth opportunities and increasing the dividend through 2026. We continue to be impressed by management's execution on its capital investment plan and ability to identify new investment opportunities. Management's good regulatory relationships have allowed it to earn at or near its allowed returns.

David Hutchens, previously chief operating officer and CEO of UNS Energy, became CEO in 2021, replacing long-serving executive Barry Perry. We think Hutchens was a good choice; we like that he has focused on executing on the company's long line of internal growth opportunities.

Long Term Suggestion:

- Buy $ 50/$ 51
- Sell $ 56/$57
- Exit: $ 48