

FORTIS INC **FTS.**

Report Date : 10Nov14 Price : \$ 37.94

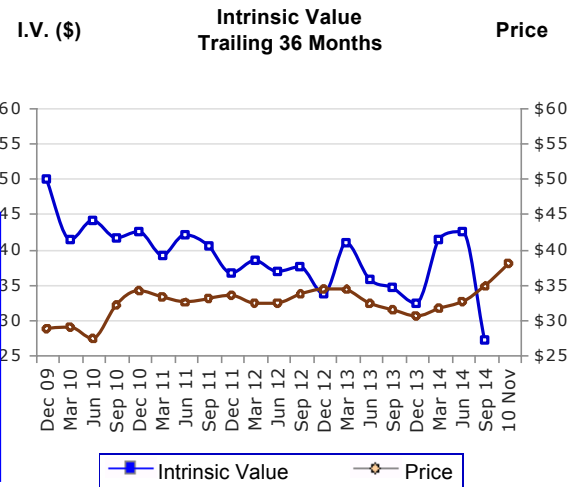
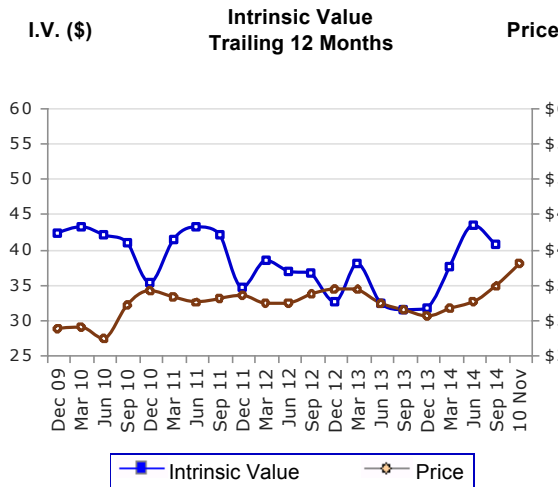
Address: Fortis Building, Suite 1201, 139 Water St. John's, Newfoundland CANADA A1B 3T2
 Telephone: 709-737-2800
 Stock Exchange: TSE
 Web Site: www.fortisinc.com
 Fiscal Year: December
 Economic Sector: Utilities
 SIC: 4911
 Price / Earning Ratio: 27.1
 Price / Book Value Ratio: 1.64
 Currency: CND \$ in Millions

As of November 10th, Fortis' P/IV ratio was at 0.93, suggesting the stock was still trading at a discount to its intrinsic value in spite of last month's rally.

| | | |
|---------------------------------|-------------|------------|
| Intrinsic Value | IV | Price / IV |
| Trailing 12 Months : | \$ 40.64 | 0.93 |
| Trailing 36 Months : | \$ 26.98 | 1.41 |
| Market Value Added (MVA) | \$ | % |
| Market Value of Total Capital : | 18,763.011 | 100.0% |
| - Invested Capital : | 15,544.377 | 82.8% |
| = Market Value Added : | 3,218.634 | 17.2% |
| Future Growth Value (FGV) | \$ | % |
| Market Value of Total Capital : | 18,763.011 | 100.0% |
| - Current Operating Value : | 20,925.608 | 111.5% |
| = Future Growth Value : | (2,162.597) | -11.5% |

Peers US: APU ATO AWK ELP EOC HE LNT MDU NJR PNW POM SCG UUGRY WEC WGL
 Peers CND: ACO.X AQN. ATP. AXY. BEP.UN BLX. CSE. CU. EMA. INE. JE. MXG NPI. SPB. TA.

INTRINSIC VALUE



Over the last 12 months, FTS generated its highest return on capital in the last 5 years, while maintaining a low cost of capital.

| Trailing 12 Months | | | | | Trailing 36 Months | | | | |
|--------------------|-------|-------|-------|-------|--------------------|-------|-------|-------|-------|
| Sep10 | Sep11 | Sep12 | Sep13 | Sep14 | Sep10 | Sep11 | Sep12 | Sep13 | Sep14 |

| PERFORMANCE | | | | | | | | | | |
|-------------|------------|------------|------------|------------|----------------------|------------|------------|------------|------------|------------|
| 665.084 | 713.146 | 666.987 | 721.652 | 1,061.876 | NOPAT | 611.036 | 669.280 | 681.739 | 700.595 | 816.838 |
| 10,849.549 | 11,228.549 | 11,900.141 | 13,103.526 | 15,544.377 | ÷ Capital | 10,849.549 | 11,228.549 | 11,900.141 | 13,103.526 | 15,544.377 |
| 6.1% | 6.4% | 5.6% | 5.5% | 6.8% | = Return / Capital | 6.0% | 6.2% | 6.0% | 5.8% | 6.0% |
| 5.1% | 5.2% | 5.2% | 5.1% | 5.1% | - Cost of Capital | 5.1% | 5.2% | 5.2% | 5.1% | 5.1% |
| 1.0% | 1.2% | 0.4% | 0.4% | 1.8% | = Performance Spread | 0.9% | 1.0% | 0.8% | 0.7% | 1.0% |

| VALUATION | | | | | | | | | | |
|------------|------------|------------|------------|------------|---------------------------|------------|------------|------------|------------|------------|
| 2,442.703 | 2,964.919 | 2,164.041 | 1,979.971 | 6,428.841 | Future EVA | 2,553.570 | 2,660.502 | 2,374.248 | 2,640.473 | 3,484.560 |
| 11,125.173 | 11,516.339 | 12,206.304 | 13,435.831 | 15,933.898 | + Capital (Adj. Mid-Year) | 11,125.173 | 11,516.339 | 12,206.304 | 13,435.831 | 15,933.898 |
| 13,567.876 | 14,481.259 | 14,370.345 | 15,415.802 | 22,362.740 | = Total IV | 13,678.743 | 14,176.841 | 14,580.552 | 16,076.304 | 19,418.459 |
| 5,696.000 | 5,824.000 | 6,281.000 | 7,171.000 | 11,384.000 | - Long Term Debt | 5,696.000 | 5,824.000 | 6,281.000 | 7,171.000 | 11,384.000 |
| 785.000 | 830.000 | 1,165.000 | 1,612.000 | 2,217.000 | - Other Liabilities | 785.000 | 830.000 | 1,165.000 | 1,612.000 | 2,217.000 |
| 7,086.876 | 7,827.259 | 6,924.345 | 6,632.802 | 8,761.740 | = IV of Equity | 7,197.743 | 7,522.841 | 7,134.552 | 7,293.304 | 5,817.459 |
| 173.200 | 186.500 | 190.200 | 212.000 | 215.600 | + Shares Outstanding | 173.200 | 186.500 | 190.200 | 212.000 | 215.600 |
| \$ 40.92 | \$ 41.97 | \$ 36.41 | \$ 31.29 | \$ 40.64 | = IV of a Share | \$ 41.56 | \$ 40.34 | \$ 37.51 | \$ 34.40 | \$ 26.98 |
| \$ 31.94 | \$ 32.93 | \$ 33.53 | \$ 31.29 | \$ 34.62 | Share Price | \$ 31.94 | \$ 32.93 | \$ 33.53 | \$ 31.29 | \$ 34.62 |
| 0.78 | 0.78 | 0.92 | 1.00 | 0.85 | Price / Intrin. Value | 0.77 | 0.82 | 0.89 | 0.91 | 1.28 |

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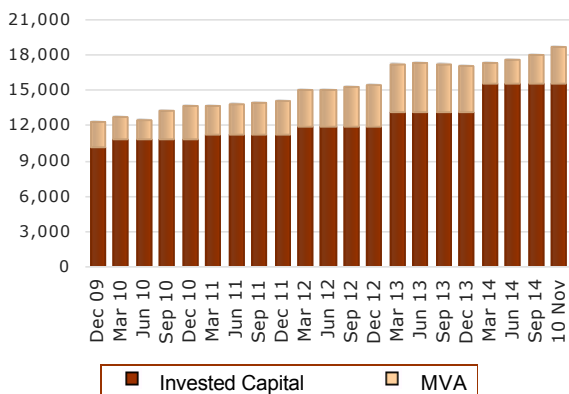
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| | | |
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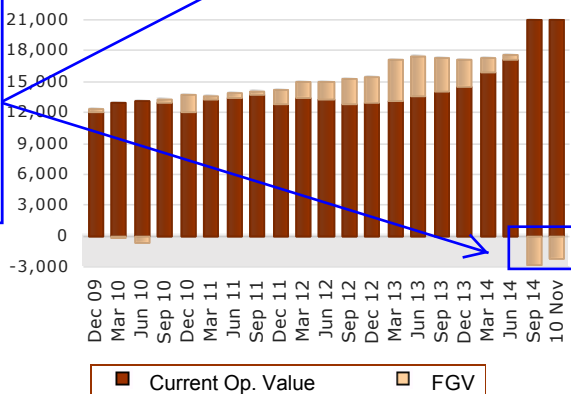
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MARKET PERFORMANCE

(M\$) **Market Value Added (MVA)**



(M\$) **Future Growth Value (FGV)**



For the first time since Q2 2010, FTS is also trading at a discount to its current operating value with an FGV/ EV of -11.5%.

| Trailing 12 Months | | | | | Quarterly | | | | | |
|--------------------------------------|-------------------|-------------------|-------------------|--------------------|---------------------------|-------------------|-------------------|-------------------|-------------------|--------------------|
| Sep10 | Sep11 | Sep12 | Sep13 | Sep14 | Price | Sep13 | Dec13 | Mar14 | Jun14 | Sep14 |
| \$ 31.94 | \$ 32.93 | \$ 33.53 | \$ 31.29 | \$ 34.62 | | \$ 31.29 | \$ 30.45 | \$ 31.52 | \$ 32.47 | \$ 34.62 |
| Market Value Added (MVA) | | | | | | | | | | |
| 13,270.322 | 13,973.335 | 15,289.464 | 17,213.392 | 18,045.791 | Total Market Value | 17,213.392 | 17,057.707 | 17,320.907 | 17,558.760 | 18,045.791 |
| 10,849.549 | 11,228.549 | 11,900.141 | 13,103.526 | 15,544.377 | - Invested Capital | 13,103.526 | 13,103.526 | 15,544.377 | 15,544.377 | 15,544.377 |
| 2,420.773 | 2,744.786 | 3,389.323 | 4,109.866 | 2,501.414 | = MVA | 4,109.866 | 3,954.181 | 1,776.530 | 2,014.383 | 2,501.414 |
| 18% | 20% | 22% | 24% | 14% | % Market Value | 24% | 23% | 10% | 11% | 14% |
| Current Operating Value (COV) | | | | | | | | | | |
| 665.084 | 713.146 | 666.987 | 721.652 | 1,061.876 | NOPAT | 721.652 | 752.200 | 854.726 | 913.725 | 1,061.876 |
| 5.1% | 5.2% | 5.2% | 5.1% | 5.1% | ÷ Cost of Capital | 5.1% | 5.2% | 5.4% | 5.3% | 5.1% |
| 12,925.880 | 13,736.187 | 12,797.782 | 14,049.981 | 20,925.608 | = COV | 14,049.981 | 14,461.244 | 15,928.225 | 17,120.416 | 20,925.608 |
| 97% | 98% | 84% | 82% | 116% | % Market Value | 82% | 85% | 92% | 98% | 116% |
| Future Growth Value (FGV) | | | | | | | | | | |
| 13,270.322 | 13,973.335 | 15,289.464 | 17,213.392 | 18,045.791 | Total Market Value | 17,213.392 | 17,057.707 | 17,320.907 | 17,558.760 | 18,045.791 |
| 12,925.880 | 13,736.187 | 12,797.782 | 14,049.981 | 20,925.608 | - COV | 14,049.981 | 14,461.244 | 15,928.225 | 17,120.416 | 20,925.608 |
| 344.443 | 237.148 | 2,491.682 | 3,163.411 | (2,879.817) | = FGV | 3,163.411 | 2,596.462 | 1,392.682 | 438.344 | (2,879.817) |
| 3% | 2% | 16% | 18% | -16% | % Market Value | 18% | 15% | 8% | 2% | -16% |

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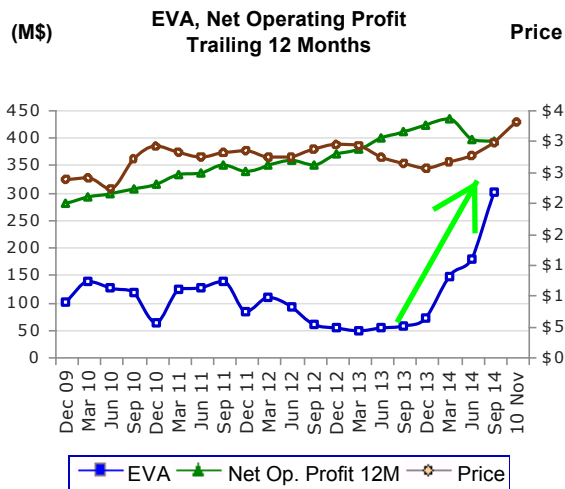
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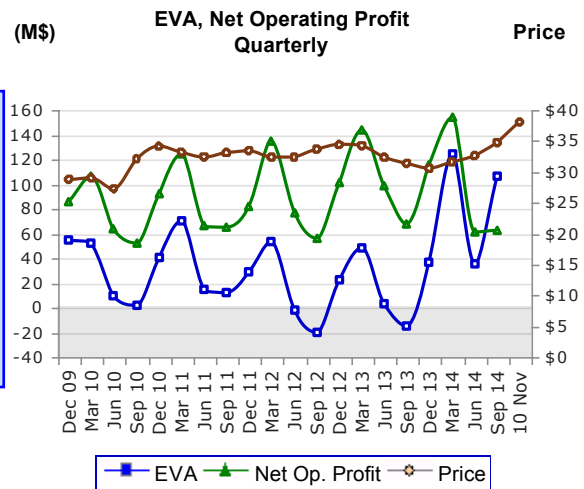
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ECONOMIC PERFORMANCE



Thanks to a TTM NOPAT that has been increasing since September 2012 and well controlled capital charges, Fortis' TTM EVA just hit a 5-year high.



Trailing 12 Months

Quarterly

| Sep10 | Sep11 | Sep12 | Sep13 | Sep14 | | Sep13 | Dec13 | Mar14 | Jun14 | Sep14 |
|---|----------------|----------------|----------------|------------------|-----------------------|-----------------|----------------|----------------|----------------|----------------|
| Net Operating Profit After Tax (NOPAT) | | | | | | | | | | |
| 738.000 | 788.000 | 767.000 | 811.000 | 976.000 | Operating Profit | 178.000 | 244.000 | 309.000 | 197.000 | 226.000 |
| 157.006 | 175.460 | 146.634 | 151.524 | 251.082 | + Adjustments | 36.344 | 42.344 | 59.083 | 52.446 | 97.208 |
| 229.922 | 250.315 | 246.647 | 240.872 | 165.205 | - Income Tax | 59.614 | 80.004 | 47.437 | 17.437 | 20.327 |
| 665.084 | 713.146 | 666.987 | 721.652 | 1,061.876 | = NOPAT | 154.730 | 206.340 | 320.646 | 232.009 | 302.881 |
| Economic Value Added (EVA) | | | | | | | | | | |
| 665.084 | 713.146 | 666.987 | 721.652 | 1,061.876 | NOPAT | 154.730 | 206.340 | 320.646 | 232.009 | 302.881 |
| 549.552 | 577.456 | 608.999 | 665.598 | 761.998 | - Capital Charge | 170.395 | 170.395 | 197.201 | 197.201 | 197.201 |
| 115.531 | 135.690 | 57.988 | 56.054 | 299.879 | = EVA | (15.665) | 35.945 | 123.445 | 34.808 | 105.680 |
| 25.677 | 20.159 | (77.702) | (1.934) | 243.825 | Change in EVA | (18.280) | 51.610 | 87.500 | (88.638) | 70.873 |
| Analysis | | | | | | | | | | |
| 10,849.549 | 11,228.549 | 11,900.141 | 13,103.526 | 15,544.377 | Capital | 13,103.526 | 13,103.526 | 15,544.377 | 15,544.377 | 15,544.377 |
| 6.1% | 6.4% | 5.6% | 5.5% | 6.8% | Return / Capital | 1.2% | 1.6% | 2.1% | 1.5% | 1.9% |
| 1.19 | 1.22 | 1.08 | 1.07 | 1.35 | Performance Index | 0.23 | 0.30 | 0.38 | 0.28 | 0.38 |
| 0.01 | 0.01 | 0.00 | 0.00 | 0.02 | EVA / Capital | (0.00) | 0.00 | 0.01 | 0.00 | 0.01 |
| \$ 0.67 | \$ 0.73 | \$ 0.30 | \$ 0.26 | \$ 1.39 | EVA / Share | \$ (0.07) | \$ 0.17 | \$ 0.58 | \$ 0.16 | \$ 0.49 |
| \$ 0.14 | \$ 0.06 | \$ (0.42) | \$ (0.04) | \$ 1.13 | Change in EVA / Share | \$ (0.09) | \$ 0.24 | \$ 0.41 | \$ (0.42) | \$ 0.33 |

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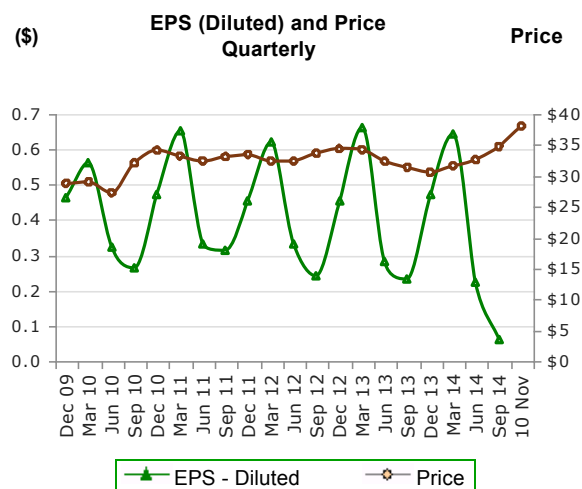
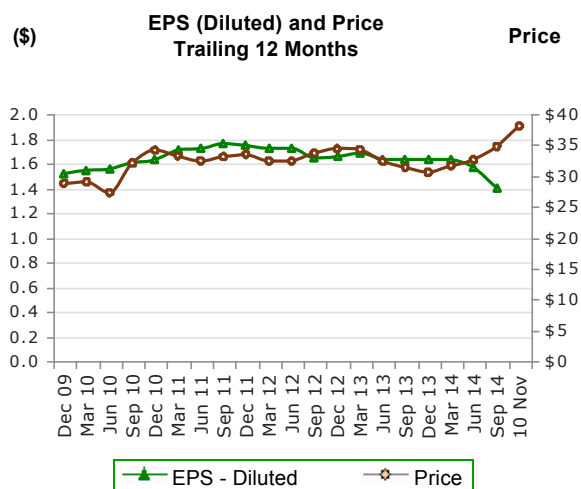
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ACCOUNTING PERFORMANCE

Trailing 12 Months

| Sep10 | Sep11 | Sep12 | Sep13 | Sep14 |
|-----------|-----------|-----------|-----------|-----------|
| 3,647.000 | 3,772.000 | 3,667.000 | 3,817.000 | 4,937.000 |
| 2,513.000 | 2,569.000 | 2,442.000 | 2,500.000 | 3,367.000 |
| @NA | @NA | @NA | @NA | @NA |
| 738.000 | 788.000 | 767.000 | 811.000 | 976.000 |
| 306.000 | 347.000 | 354.000 | 397.000 | 359.000 |
| \$ 1.10 | \$ 1.15 | \$ 1.19 | \$ 1.23 | \$ 1.27 |
| \$ 1.64 | \$ 1.80 | \$ 1.67 | \$ 1.64 | \$ 1.40 |
| \$ 1.60 | \$ 1.76 | \$ 1.64 | \$ 1.62 | \$ 1.39 |
| 173.200 | 186.500 | 190.200 | 212.000 | 215.600 |

Quarterly

| Sep13 | Dec13 | Mar14 | Jun14 | Sep14 |
|---------|-----------|-----------|-----------|-----------|
| 915.000 | 1,229.000 | 1,455.000 | 1,056.000 | 1,197.000 |
| 601.000 | 848.000 | 1,003.000 | 716.000 | 800.000 |
| @NA | @NA | @NA | @NA | @AF |
| 178.000 | 244.000 | 309.000 | 197.000 | 226.000 |
| 64.000 | 113.000 | 157.000 | 60.000 | 29.000 |
| \$ 0.31 | \$ 0.31 | \$ 0.32 | \$ 0.32 | \$ 0.32 |
| \$ 0.23 | \$ 0.47 | \$ 0.65 | \$ 0.22 | \$ 0.06 |
| \$ 0.23 | \$ 0.47 | \$ 0.64 | \$ 0.22 | \$ 0.06 |
| 212.000 | 212.700 | 213.600 | 214.800 | 215.600 |

Selected Income Statement Items

| | | | | | | | | | | |
|-----------|-----------|-----------|-----------|-----------|---------------------------|---------|-----------|-----------|-----------|-----------|
| 3,647.000 | 3,772.000 | 3,667.000 | 3,817.000 | 4,937.000 | Sales | 915.000 | 1,229.000 | 1,455.000 | 1,056.000 | 1,197.000 |
| 2,513.000 | 2,569.000 | 2,442.000 | 2,500.000 | 3,367.000 | Cost of Goods Sold | 601.000 | 848.000 | 1,003.000 | 716.000 | 800.000 |
| @NA | @NA | @NA | @NA | @NA | R + D | @NA | @NA | @NA | @NA | @AF |
| 738.000 | 788.000 | 767.000 | 811.000 | 976.000 | Operating Profit | 178.000 | 244.000 | 309.000 | 197.000 | 226.000 |
| 306.000 | 347.000 | 354.000 | 397.000 | 359.000 | Net Income | 64.000 | 113.000 | 157.000 | 60.000 | 29.000 |
| \$ 1.10 | \$ 1.15 | \$ 1.19 | \$ 1.23 | \$ 1.27 | Dividends | \$ 0.31 | \$ 0.31 | \$ 0.32 | \$ 0.32 | \$ 0.32 |
| \$ 1.64 | \$ 1.80 | \$ 1.67 | \$ 1.64 | \$ 1.40 | EPS | \$ 0.23 | \$ 0.47 | \$ 0.65 | \$ 0.22 | \$ 0.06 |
| \$ 1.60 | \$ 1.76 | \$ 1.64 | \$ 1.62 | \$ 1.39 | EPS - Diluted | \$ 0.23 | \$ 0.47 | \$ 0.64 | \$ 0.22 | \$ 0.06 |
| 173.200 | 186.500 | 190.200 | 212.000 | 215.600 | Common Shares | 212.000 | 212.700 | 213.600 | 214.800 | 215.600 |

Selected Balance Sheet and CashFlow Items

| | | | | | | | | | | |
|-----------|-----------|-----------|------------|------------|----------------------------|------------|------------|------------|------------|------------|
| 1,053.000 | 1,063.000 | 869.000 | 1,083.000 | 3,243.000 | Current Assets | 1,083.000 | 1,296.000 | 1,714.000 | 1,576.000 | 3,243.000 |
| 2,848.000 | 3,139.000 | 3,591.000 | 4,482.000 | @NA | Other Assets | 4,482.000 | 4,172.000 | 4,452.000 | 4,502.000 | @NA |
| 1,443.000 | 1,329.000 | 1,126.000 | 1,451.000 | 4,175.000 | Current Liabilities | 1,451.000 | 2,084.000 | 2,542.000 | 2,484.000 | 4,175.000 |
| 8,539.000 | 8,649.000 | 9,305.000 | 11,298.000 | 19,549.000 | Total Liabilities | 11,298.000 | 11,532.000 | 12,058.000 | 12,068.000 | 19,549.000 |
| 3,255.000 | 3,809.000 | 3,933.000 | 4,688.000 | 4,966.000 | Common Equity | 4,688.000 | 4,772.000 | 4,910.000 | 4,894.000 | 4,966.000 |
| (504.000) | (418.000) | (291.000) | (492.000) | (575.000) | Free CashFlow | (209.000) | (193.000) | (26.000) | (25.000) | (331.000) |

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