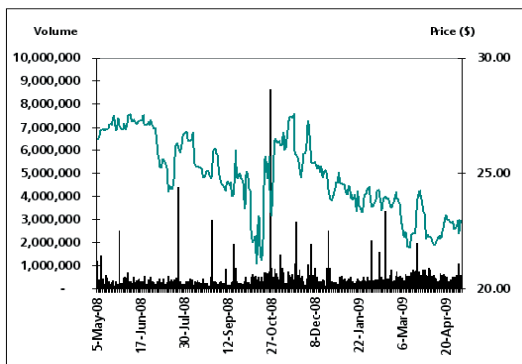


Fortis Inc.
(FTS - \$22.85)
Earnings Update
Outperform
Target Price: \$28.00


Market Capitalization (\$ million)	3,879
Outstanding Number of Shares (million)	169.8
Dividend Yield (%)	4.55

(\$ million except per share data)	2008	2009E	2010E
Revenues	3,903	4,010	4,130
EBITDA	1,048	1,155	1,216
EPS	1.56	1.55	1.65

Citadel Securities Estimates

Fortis Inc. is the largest investor-owned distribution utility in Canada, serving almost 2,000,000 gas and electric customers. Its regulated holdings include a natural gas utility in British Columbia and electric utilities in 5 Canadian provinces and 3 Caribbean countries. It owns non-regulated hydroelectric generation assets across Canada and in Belize and upper New York State. It also owns hotels & commercial real estate in Canada.

May 5, 2009
2009 Q1 Earnings Update

Fortis announced its first quarter financials for 2009. Revenue growth (q-o-q) was 4.8%. Highest percentage revenue increase in the group belonged to the Caribbean segment (11%) followed by Fortis BC (9%) and Fortis Alberta (8%). Favorable result in the Caribbean segment is mainly due to the foreign exchange impact (of the strengthening US dollar against the Canadian dollar) and the one-time recording of \$1 million of favorable appeal judgment at Fortis Turks and Caicos related to a customer rate classification matter. The revenue increase in Fortis BC was driven by the increase in electricity sales and electricity sales growth. Fortis Alberta also benefited from the customer distribution rates and the favorable impact of load and customer growth.

Operating Income of the Company declined 2.3% q-o-q. EPS for the quarter is \$0.54 as compared to \$0.58 of the same quarter of 2008.

The table below presents the highlights of the segments:

(\$ million)	Operating Revenues		Operating Income	
	Q1/2009	Q1/2008	Q1/2009	Q1/2008
Terasen	669	635	109	113
Fortis Alberta	79	73	23	20
Fortis BC	72	66	23	20
NF Power	169	164	17	18
Other Canadian	70	70	12	10
Electric Caribbean	83	75	12	17
Fortis Generation	16	19	9	11
Fortis Properties	47	45	9	10
Corporate & Other	7	7	2	1
Intersegment Elimination	(11)	(8)	(5)	(4)
Consolidated	1,201	1,146	211	216

We kept our target price (\$28.00) and our recommendation unchanged.

Recent Developments

In December 2008, Fortis issued 11,700,000 Common Shares at a price of \$25.65 per share for gross proceeds to the Corporation of \$300,105,000. The net proceeds of the offering is used mainly to repay \$200 million of debt of Terasen and for general corporate purposes.

In April 2009, Fortis Properties acquired a hotel in Ontario. Fortis paid \$7 million for the 214-room Holiday Inn Select in Windsor. With that acquisition, Fortis Properties owns 21 hotels with more than 4,000 rooms in eight Canadian provinces in addition to approximately 2.8 million square feet of commercial real estate primarily in Atlantic Canada.

Segments

Terasen, contributing the highest share (56%) in the revenues of Fortis in the first quarter of 2009, increased its revenues by 5% q-o-q mainly due to increased residential consumption and higher basic customer delivery rates compared to the same quarter in 2008. Earnings of Terasen were comparable q-o-q.

FortisAlberta increased its revenues by 8% q-o-q mainly due to an 8.6% increase in customer distribution rates, effective January 1, 2009, and the impact of customer and load growth. The earnings of Fortis Alberta were slightly higher q-o-q due to the increase in customer distribution rates and load and customer growth, although these were partially offset by the increased operating expenses, amortization costs and finance charges.

FortisBC's revenues increased by 9% q-o-q. The increase was driven by a 4.6% increase in electricity rates, effective January 1, 2009, and the electricity sales growth. The Company's earnings were \$2 million higher q-o-q due to the impact of the increase in electricity rates and customer growth. These, however, were partially offset by higher energy supply costs, operating expenses and amortization costs.

Newfoundland Power's revenues were 3% higher q-o-q driven by electricity sales growth. The Company's earnings were comparable q-o-q. The impact of electricity sales growth was offset largely by the impact of higher demand charges from Newfoundland and Labrador Hydro Corporation, associated with meeting peak load requirements during the winter season, and increased amortization costs associated with continued capital investment in capital assets.

Although the highest percentage revenue growth in the group came from the Caribbean Utilities, it was mainly the favorable impact of the foreign exchange and one-time recording of a rate classification matter. Otherwise, the electricity sales declined due to cooler-than-normal weather conditions combined with the unfavorable impacts of global economic conditions in tourism, oil, construction and related industries.

Fortis Generation's revenue for the quarter declined by 16% q-o-q. This is mainly due to the inclusion of energy sales associated with the generation operations in Central Newfoundland for only 1 1/2 months as compared to a full quarter in 2008. The Company changed to the equity method of accounting for these operations in February 2009. This decision was as a result of the expropriation of Newfoundland based assets of AbitibiBowater Inc. by the government of Newfoundland and Labrador.

Valuation and Recommendation

Fortis remains to be a one of our picks due to its strategy and its execution. In addition to the fact that Fortis operates in a defensive industry, it also positions itself for more growth through possible acquisitions and organically to increase the shareholder value. The announced results are in line with our annual estimates. Our recommendation and target price remain unchanged.

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Market Perform: Between 15% and -15%

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