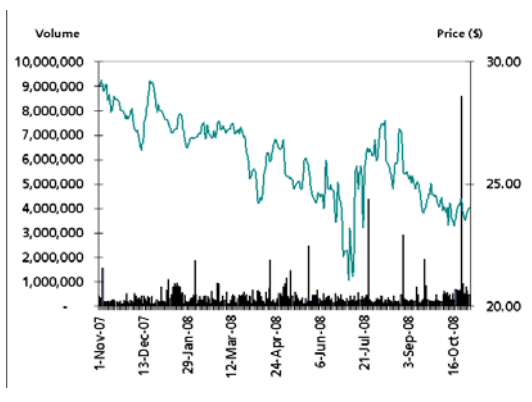


Fortis Inc.
(FTS - \$24.20)
Earnings Update
Outperform
Target Price: \$28.00


Market Capitalization (\$ million)	4,098		
Outstanding Number of Shares (million)	169		
Dividend Yield (%)	4.29		
(\$ 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.

February 9, 2009

2008 Year-End Earnings Update

Fortis announced its Q4 and unaudited year-end financials for 2008. Revenue growth (y-o-y) was 44%. 2008 was the first year that the Company recorded a full year of revenue from Terasen. Quarter-over-quarter increase in revenue for the third quarter was 16% as compared to Q4 2007. Highest percentage revenue increase in the group belonged to the Caribbean segment (33%) followed by Fortis Alberta (11%) and Fortis Generation (9%).

Operating Income of the Company increased 29% y-o-y and 3% q-o-q. EPS for the year is \$1.56 as compared to \$1.40 of 2007. EPS for the fourth quarter was \$0.48 as compared to \$0.51 for Q4/2007. Excluding the favorable impact of one-time items in Q4/2007, Q4 earnings for 2008 was higher one than the same period last year.

The table below presents the highlights of the segments:

(\$ million)	Operating Revenues		Operating Income	
	2008	2007	2008	2007
Terasen*	1,902	905	284	138
Fortis Alberta	300	270	85	73
Fortis BC	237	229	68	62
NF Power	517	491	85	77
Other Canadian	262	263	39	43
Electric Caribbean	408	307	44	61
Fortis Generation	82	75	51	43
Fortis Properties	207	191	57	54
Corporate & Other	26	22	2	3
Intersegment Elimination	(38)	(35)	(15)	(13)
Consolidated	3,903	2,718	700	541

* The Terasen Gas companies were acquired on May 17, 2007.

We have revised our target price to \$28.00 due to the change in market multiples. We keep 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.

Segments

Terasen, contributing the highest share (41%) in the revenues of Fortis, increased its revenues by 11% q-o-q mainly due to increased consumption, higher gas commodity costs charged to customers and increase in gas distribution rates. Earnings of Terasen were \$5 million (10%) lower q-o-q. The reason for comparative decline is due to its recording gain on the sale of surplus land of \$7 million in Q4/2007. Excluding this after-tax gain, earnings were \$2 million (4%) higher.

FortisAlberta increased its revenues by 15% q-o-q and 11% y-o-y mainly due to a 6.8% increase in customer distribution rates and the impact of customer and load growth as well as the accrual of the impact for collection in future customer distribution rates of the increase in 2008 allowed ROE to 8.75% from 8.51%, effective January 1, 2008 and increased franchise fee revenue. Although quarterly earnings were significantly higher in Q4/2008 due to higher revenue and lower future income tax expenses primarily associated with the regulator-approved Alberta Electric System Operator (AESO) charges deferral account, FortisAlberta posted slightly lower earnings for the year as compared to 2007. Lower bottomline earnings of the company is explained by lower future income tax recoveries, higher operating expenses and increased amortization costs and finance charges - stemming from the company's significant capital expenditure program and related borrowing facilities.

FortisBC's revenues increased by 8% q-o-q and 3.5% y-o-y. The increase was driven by the increases in electricity rates and the shift in sales mix. The annual increase was partially offset by lower revenue contributions from non-regulated operating, maintenance and management services. The Company's earnings were comparable q-o-q and 10% higher y-o-y.

Newfoundland Power's revenues were 5.3% higher q-o-q and y-o-y mainly due to an average increase in customer rates of 2.8%, effective January 1, 2008, which included the impact of an increase in the 2008 allowed ROE to 8.95% from 8.60%, and electricity sales growth. The Company's earnings were slightly lower q-o-q, reflecting the shift in the quarterly distribution of annual purchased power expense which decreased the earnings by approximately \$2 million during Q4/2008.

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. Due to the changing market multiples, we have revised the target price of Fortis. Our recommendation, however, remains unchanged.

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Market Perform: Between 15% and -15%

Underperform: -15% or less

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