Heres one reason Canadians are snapping up US utilities like Novis ITC

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Newfoundland-based Fortis offered $6.9 billion for ITC.

On a single February day, Canadian utilities **Fortis Inc.** and **Algonquin Power & Utilities Corp.** announced billion-dollar deals to buy U.S. power companies. In fact, just in the past year, companies from the Great White North have made plans to take over $26 billion worth of U.S. operations.

One reason Canadians are winning bids on their neighbors to the south: Their stocks are worth more.

The Canadians are capable of outbidding their U.S. counterparts while still increasing profits for investors because their share price-to-earnings ratios are higher, according to Jim Torgerson, CEO of **Avangrid Inc.** And he's in a position to know the market for U.S. power assets. His company was formed in December when **Iberdrola SA** bought Connecticut utility owner **UIL Holdings Corp.**

Canadian buyers' stocks are "worth more," Torgerson said in an interview at Bloomberg's headquarters in New York. "They probably can pay a higher premium and still have an accretive transaction."

At the heart of their healthy stocks may be the fact that Canada's utilities are facing less competition than their neighbors to the south. Hydropower accounts for more than half of Canada's electricity supply, leaving fewer players in the market and less of a chance for solar panels and wind turbines to pressure profits, according to Colleen Regan, a senior analyst for **Bloomberg New Energy Finance**. The power business in Canada also tends to be heavily regulated, with just a handful of utilities dominating the space in some regions.

“You have these completely regulated, big utilities with their own generating resources and a lot of hydroelectricity,” Regan said. “The incentive to move and encourage wind and solar isn’t high.”

They’re also searching for takeovers south of the border because their pick at home is limited, and U.S. utilities are still offering steady, regulated returns.

Limited pool

“There are very few Canadian utilities of any size” to be bought, said Andrew B. Smith, a St. Louis-based analyst for **Edward Jones & Co.**, who began covering Fortis and **Emera Inc.** as they expanded into the U.S. Emera agreed to buy Florida’s **Teco Energy Inc.** for about $6.5 billion in September.

Algonquin Power & Utilities had an annual price-to-earnings ratio of about 27 times the day before it agreed to buy Missouri’s **Empire District Electric Co.** for $1.5 billion in cash. Fortis, based in Newfoundland, was trading at almost 19 times annual earnings before announcing its $6.9 billion deal for **ITC Holdings Corp.** in Novi. That compares to an average ratio of about 17 for the companies listed in the S&P 500 Utilities index on that day.

And utilities aren’t the only U.S. energy assets Canadians are interested in buying. **TransCanada Corp.**, with a ratio of 19, has held talks about buying Houston natural gas pipeline operator **Columbia Pipeline Group Inc.**, people familiar with the situation said Thursday, asking not to be identified because the information isn’t public.

A higher price-to-earnings ratio “gives you the upper hand,” Bloomberg Intelligence analyst Kit Konolige said. “You can buy profit cheaper.”

The average ratio for Canadian companies in the S&P/TSX Capped Utilities Index has risen to almost 29 times earnings, outperforming growth in the 30-company S&P 500 Utilities Index. And there was a time when ratios were even lower in the U.S., according to Torgerson.

“I remember when 12 times was more in line” for U.S. utility ratios, he said.

- *Bob Brennan contributed to this report.*