**Ticker:** ITC  \n**Recommendation:** Buy  
Current Price: $36.26  \nPrice Target: $43  
TruValue: N/A

### Trading Statistics

<table>
<thead>
<tr>
<th>Metric</th>
<th>Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>52 Week Price Range</td>
<td>$33.77 - $43.82</td>
</tr>
<tr>
<td>Market Capitalization</td>
<td>$5.64 billion</td>
</tr>
<tr>
<td>Dividend Yield</td>
<td>1.79%</td>
</tr>
<tr>
<td>Avg. Daily Volume (3M)</td>
<td>1.30 million</td>
</tr>
<tr>
<td>P/E Ratio</td>
<td>23.25</td>
</tr>
<tr>
<td>Beta</td>
<td>0.9</td>
</tr>
<tr>
<td>Shares Outstanding</td>
<td>155.20 million</td>
</tr>
</tbody>
</table>

### Investment Thesis

- 59.6% Gross Margin, highest within Electric Utilities Industry
- 14% Div. Growth Rate (year over year)
- Forward PEG is 29% discount relative to S&P 500, 55% discount relative to Electrical Utilities Industry
- Forward PE is 24% discount relative to S&P 500

### Business Overview

- Located in Michigan
- Founded in 2002
- ITC Holdings customers
  - Utilities
  - Municipalities
  - Co-operatives
  - Power marketers
  - Alternative Energy Suppliers
- Revenue Breakdown (2014)
  - Network Revenues 74.7%
  - Regional cost sharing revenues 25.9%
  - Point-to-point 1.7%
  - Scheduling, control and dispatch 1.2%
  - Other 1.0%
  - Recognition of contingent liability for return on equity complaint (4.5%)
Management and Employee Relations
CEO: Joseph Welch
- Entire career in utilities industry
- Founded ITC, served as its first & only president & CEO since 2003
- Served as chairman of ITC board of directors since 2008

Other Key Executives
- COO & EVP, J.E. Jipping
- SVP, CFO & Treasurer, R.P. Hayes
- Secretary, W.A. McIntyre
- General Counsel, C.M. Soneral

Management Guidance
- Management has provided a clear-cut strategy since IPO and has followed this plan accordingly
- Has met project deadlines on time and within their budget

Recent News
- Plans to construct 200-mile transmission line that will run through parts of southern Kansas

Macro Factors
On the long-term horizon, the increase in the use of electricity, and population growth will over time increase the demand for electricity. This would call for electric utility companies like ITC Holdings to increase their electric transmission abilities to meet this new demand.

Competition
- Brookfield Infrastructure
- Great Plains Energy Inc
- Scana Corporation
- Cleco Corporation
- Teco Energy Inc

Portfolio Allocation
- Medium Cap
- Growth
- Domestic Equity
- Utilities

Sales Growth Rate:
- 2011: 8.69%
- 2012: 9.66%
- 2013: 13.33%
- 2014: 8.69%
- est. 2015: 11%
- est. 2016: 8.4%
- est. 2017: 10.1%

Projections for ITC are based on higher revenue requirements, growing rate base (formula-based mechanism), and new projects that the company will be taking on in the future.

Free Cash Flow:
- 2015: 5%
- 2016: 5%
- 2017: 5%
- 2018: 5%

WAAC Calculation: 4.14%

<table>
<thead>
<tr>
<th>Component</th>
<th>Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Risk Free Rate</td>
<td>3.00%</td>
</tr>
<tr>
<td>Beta</td>
<td>.32</td>
</tr>
<tr>
<td>Market Risk Premium</td>
<td>10%</td>
</tr>
<tr>
<td>Cost of Equity</td>
<td>6.24%</td>
</tr>
<tr>
<td>After-Tax Cost of Debt</td>
<td>2.68%</td>
</tr>
<tr>
<td>Target Debt to Assets Ratio</td>
<td>58.84%</td>
</tr>
<tr>
<td>Weighted Average Cost of Capital</td>
<td>4.14%</td>
</tr>
</tbody>
</table>

Valuation:

<table>
<thead>
<tr>
<th>Component</th>
<th>Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Enterprise Value</td>
<td>9.65B</td>
</tr>
<tr>
<td>Add Cash</td>
<td>27.74M</td>
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<tr>
<td>Firm Value</td>
<td>9.68B</td>
</tr>
<tr>
<td>Subtract Debt</td>
<td>4.10B</td>
</tr>
<tr>
<td>Equity Value</td>
<td>5.58B</td>
</tr>
<tr>
<td>Number of Shares</td>
<td>155M</td>
</tr>
<tr>
<td>Per-Share Equity Value</td>
<td>$43.02</td>
</tr>
</tbody>
</table>

Recommendation: Buy
ITC Holdings Corp. has a wide economic moat due to the large scale of its operations. On top of its excellent management, ITC publicly has promoted wind and solar energy, which makes it a perfect fit for our Responsible Investment Fund portfolio. In addition, ITC currently has the highest gross margin within its industry, a dividend growth rate of 14%(YoY), and a long term growth forecast of 11%(more than x2 the average in its peer group) which is why I give ITC Holdings a buy rating.