Is Now the Time to Buy Emera Inc.?

Description

Electric utilities are fast becoming a favorite among yield starved investors because of their stable earnings and regularly growing dividends. One utility company that lately has seen its share price on a tear is **Emera Inc.** (TSX:EMA), with it having shot up an impressive 23% over the last six months. This along with some impressive earnings and a surprise dividend hike has piqued investor interest in the company.

Nonetheless the question remains for investors; after such a strong performance will its shares continue to appreciate or will they take a breather?

So what?

Emera holds a diversified portfolio of electricity generating and natural gas pipeline assets across North America and the Caribbean. This reduces risk by lessening Emera's dependence on any single market.

More importantly Emera's business is difficult to replicate with considerable investment required to construct this diverse portfolio of power generating and pipeline assets. There are also significant regulatory hurdles to be overcome when entering these industries.

This gives Emera a wide economic moat that helps to protect its competitive advantage and future earnings growth.

Furthermore, the relatively unchanging demand for electricity and the significant portion of earnings coming from regulated, electricity-generating assets virtually guarantees those earnings.

An important characteristic of a business with these attributes is its ability to reward investors year-in and year-out through a steadily growing dividend. When it reported its fourth-quarter 2014 results, Emera surprised the market by announcing a 3.2% dividend hike that came on the back of a 6.9% hike at the end of the third quarter. This gives Emera a sustainable dividend yield of 3.7%.

The strength of Emera's business becomes quite clear when you consider that it has hiked its dividend for the last seven straight years and this includes during the global financial crisis (GFC). Between 2008 and 2010 – the height of the GFC – when most companies were slashing or even eliminating their dividends, Emera hiked its annual dividend three times.

These regular dividend hikes testify to management's confidence that the business can continue growing earnings and highlight there will be more to come as Emera's earnings grow.

There are also a number of tailwinds that will help to propel Emera's earnings growth.

These include the current low interest rate environment; the Bank of Canada has already cut interest rates in January and is expected to do so again in March. This is a boon for Emera, because utilities and infrastructure businesses are capital intensive and require considerable investment in order to maintain assets and expand them.

Emera is also focused on increasing the footprint of its electricity transmission assets, growing the capacity of its pipeline network and expanding its renewable energy assets. This will further support earnings growth over the long-term as Emera boosts its power-generating capacity and gains further customers. This strategy will allow Emera to achieve its strategic goals of having regulated electricity generating assets contributing 85% of earnings combined with a dividend compound annual growth rate of 6% between now and 2019.

Now what?

Clearly, Emera has a resilient business with a solid history of delivering strong financial results and rewarding shareholders through regular dividend hikes. There are also a range of tailwinds that coupled with its wide economic moat will support further earnings growth and dividend hikes. Despite appearing fairly priced with a price of 20 times 2015 earnings, its attractive long-term growth outlook, low-risk business model and goal of growing its dividend by 6% annually for the next five years makes Emera an appealing income investment.

CATEGORY

1. Dividend Stocks
2. Investing

TICKERS GLOBAL

1. TSX:EMA (Emera Incorporated)

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Date
2025/07/31
Date Created
2015/02/18
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