Is Emera Inc. a Better Dividend Investment Than Fortis Inc.?

Description

After posting yet again another round of solid results for the fourth quarter 2014 and announcing a surprise dividend hike, electric utility **Emera Inc.** (TSX:EMA) is fast shaping up to become a dividend champion like **Fortis Inc.** (TSX:FTS). This makes it a core holding in any income-focused share portfolio, but it also raises the question for investors as to whether it is a superior investment compared to Fortis.

So what?

Emera has raised its dividend almost every year since commencing dividend payments in 1992. It now gives it a dividend yield of 3.7%, which is marginally higher than Fortis's 3.5%, although Fortis has now hiked its dividend for a record 42 straight years. Emera's yield is also sustainable, with a median 10-year dividend payout ratio of 75%.

These regular dividend hikes give Emera's dividend a compound annual growth rate (CAGR) of 3.5%, which is half of Fortis's CAGR of 7% since the inception of its dividend. Nevertheless, Emera's dividend CAGR is double the average annual inflation rate for the same period, meaning that the real rate of return continues to grow.

This ability to consistently hike dividends is an attribute of a company that has solid earnings and consistent earnings growth. Typically, these are the attributes of companies that operate in highly regulated industries with businesses that are extremely difficult to replicate and provide goods or services with stable demand.

Like Fortis, Emera possesses a wide economic moat that protects its competitive advantage. This moat arises from the steep barriers to entry for electric utilities, including the industry's heavy regulation and the need for considerable capital to either construct or purchase the required infrastructure.

Furthermore, the demand for electricity remains stable, as it is an important component of our modern lives and powering modern economies. This means that as the population and economic activity grows, the demand for electricity grows too, providing both Emera and Fortis with steady earnings growth.

Now what?

Emera has a solid history of earnings and dividend growth, and this begs the questions of whether it is a better investment than Fortis.

Fortis certainly has a better proven history of delivering for shareholders and a superior track record of higher revenue growth, but Emera has a lower degree of leverage and is generating a higher return on equity. Fortis's strong revenue growth can be attributed to the maturity of its business and its acquisition of regulated electricity generating assets in recent years.

Despite these differences, they are both trading with similar valuations. Emera and Fortis have forward price-to-earnings ratios of about 20 and price-to-book ratios of about two, but Emera appears cheaper when its enterprise-value (EV) of 10 times EBITDA is compared to Fortis' 15 times EBITDA.

I believe both companies are solid additions to any income-focused portfolio, but my preference lies with Emera because it is more attractively priced and offers greater growth potential at this time.

CATEGORY

1. Dividend Stocks
2. Investing

TICKERS GLOBAL

1. TSX:EMA (Emera Incorporated)
2. TSX:FTS (Fortis Inc.)

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