Does Emera Inc.’s Q1 Earnings Beat Make its Stock a Strong Buy?

Description

Emera Inc. (TSX:EMA), one of the largest electric utilities companies in North America, announced better-than-expected first-quarter earnings results before the market opened on May 11, and its stock has responded by rising over 2%. Let’s take a closer look at the quarterly results to determine if we should consider establishing long-term positions today, or if we should wait for a better entry point in the trading sessions ahead instead.

Surpassing expectations by a wide margin

Here’s a summary of Emera’s first-quarter earnings results compared with what analysts had anticipated and its results in the same quarter a year ago.

Metric	Reported	Expected	Year-Ago
Adjusted Earnings Per Share	$1.18	$0.94	$1.03
Operating Revenues	$900.3 million	$837.8 million	$1.05 billion

Source: Financial Times

Emera’s adjusted earnings per share increased 14.6% and its operating revenue decreased 14.3% compared with the first quarter of fiscal 2014. The company’s double-digit percentage increase in earnings per share can be attributed to its adjusted net income increasing 17.1% to $171.6 million, driven by a 25.2% increase to $76.4 million in its Emera Energy segment. Its double-digit percentage decline in revenue can be attributed to mark-to-market impacts, which reduced its operating revenue by $124.3 million, as well as a $43.5 million reduction in trading and marketing revenues.

Here’s a quick breakdown of 10 other notable statistics from the report compared with the year-ago period:

1. Revenue increased 6.9% to $446.5 million in its Nova Scotia Power Inc. segment
2. Revenue decreased 40.9% to $257.8 million in its Emera Energy segment
3. Revenue decreased 6.9% to $105.4 million in its Emera Caribbean segment

4. Revenue increased 7.1% to $69.2 million in its Emera Maine segment
5. Revenue increased 14.9% to $13.1 million in its Pipelines segment
6. Adjusted earnings before interest, taxes, depreciation, and amortization increased 16.1% to $384.2 million
7. Operating income decreased 26.8% to $232.1 million
8. Total assets increased 9.7% to $10.19 billion
9. Weighted average number of common shares outstanding increased 2% to 144.9 million
10. Ended the quarter with $305.3 million in cash and cash equivalents, an increase of 38.1% from the beginning of the quarter

Is the post-earnings rally warranted?

It was a solid quarter for Emera, so I think the post-earnings rally in its stock is warranted. I also think the stock could continue higher from here and set new all-time highs over the next several weeks because it still trades at inexpensive valuations and has a high dividend yield.

First, Emera's stock trades at just 20.3 times fiscal 2015's estimated earnings per share of $2.07 and only 19 times fiscal 2016's estimated earnings per share of $2.21, both of which are inexpensive compared with its long-term growth potential.

Second, Emera pays a quarterly dividend of $0.40 per share, or $1.60 per share annually, which gives its stock a 3.8% yield at today's levels. The company has also increased its dividend 11 times since 2007, making it one of the top dividend-growth plays in the industry today.

With all of the information provided above in mind, I think Emera is one of the top utilities stocks in the market today. Long-term investors should take a closer look and strongly consider beginning to scale in to positions.

CATEGORY

1. Dividend Stocks
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1. TSX:EMA (Emera Incorporated)

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jsolitro