Fortis Inc. or Emera Inc.: Which Utility Should You Buy Today?

Description

Fortis Inc. (TSX:FTS) and **Emera Inc.** (TSX:EMA) are two of the largest electric and gas utilities companies in North America, and both of their stocks represent very attractive long-term buying opportunities today. However, the laws of diversification state that we cannot own both, so let's take a closer look at the companies' first-quarter earnings results, their stocks' valuations, and their dividend yields to determine which is the better buy today.

Fortis Inc.

Fortis's stock has fallen over 8.5% year-to-date, including a decline of over 9% since it announced better-than-expected first-quarter earnings results on the morning of May 5. Here's a summary of eight of the most notable statistics from its report compared with the year-ago period:

1. Adjusted net income increased 22.6% to $179 million
2. Adjusted earnings per share decreased 4.4% to $0.65, surpassing analysts' expectations of $0.61
3. Total revenue increased 31.6% to $1.92 billion, surpassing analysts' expectations of $1.89 billion
4. Revenue increased 167.3% to $727 million in its U.S. Regulated Electric & Gas Utilities segment
5. Revenue increased 0.6% to $1.05 billion in its Canadian Regulated Electric & Gas Utilities segment
6. Revenue increased 5.4% to $78 million in its Caribbean Regulated Electric Utilities segment
7. Cash flow from operating activities increased 69.8% to $450 million
8. Ended the quarter with $299 million in cash and cash equivalents, an increase of 30% from the beginning of the quarter

At today's levels Fortis's stock trades at 17.3 times fiscal 2015's estimated earnings per share of $2.06 and 16.4 times fiscal 2016's estimated earnings per share of $2.17, both of which are inexpensive compared with its five-year average price-to-earnings multiple of 20.4.

In addition, Fortis pays a quarterly dividend of $0.34 per share, or $1.36 per share annually, giving its stock a 3.8% yield at current levels. The company has also increased its annual dividend payment for 42 consecutive years, the record for a public corporation in Canada, and its increased amount of free cash flow could allow this streak to continue for another decade at least.

Emera Inc.

Emera's stock has risen over 3% year-to-date, including a decline of over 2.5% since it announced better-than-expected first-quarter earnings results on the morning of May 11. Here's a summary of eight of the most notable statistics from its report compared with the year-ago period:

1. Adjusted net income increased 17.1% to $171.6 million
2. Adjusted earnings per share increased 14.6% to $1.18, surpassing analysts' expectations of $0.79

3. Total revenue decreased 14.3% to $900.3 million, surpassing analysts' expectations of $837.8 million
4. Revenue increased 6.9% to $446.5 million in its Nova Scotia Power Inc. segment
5. Revenue decreased 40.9% to $257.8 million in its Emera Energy segment
6. Revenue decreased 6.9% to $105.4 million in its Emera Caribbean segment
7. Adjusted earnings before interest, taxes, depreciation, and amortization increased 16.1% to $384.2 million
8. Ended the quarter with $305.3 million in cash and cash equivalents, an increase of 38.1% from the beginning of the quarter

At current levels Emera's stock trades at 17.7 times fiscal 2015's estimated earnings per share of $2.26 and 17.2 times fiscal 2016's estimated earnings per share of $2.32, both of which are inexpensive compared with its five-year average price-to-earnings multiple of 18.

Additionally, Emera pays a quarterly dividend of $0.40 per share, or $1.60 per share annually, which gives its stock a 4% yield at today's levels. The company has also increased its annual dividend payment for nine consecutive years, and its strong operational performance could allow this streak to continue for many years to come.

Which utility is the better buy today?

After comparing the companies' first-quarter earnings results, their stocks' valuations, and their dividend yields, I think Fortis represents the better long-term investment opportunity today. Emera has a higher dividend yield, but Fortis posted stronger first-quarter earnings results, its stock trades at more attractive valuations, and it has the longest active streak of annual dividend increases in the nation, giving it an easy win in this match-up. Foolish investors should take a closer look and strongly consider making Fortis a core holding today.

CATEGORY

1. Dividend Stocks
2. Energy Stocks
3. Investing

TICKERS GLOBAL

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

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