Should You Buy Emera Inc. for Income Today?

Description

Emera Inc. (TSX:EMA) is reporting its second-quarter earnings results today, August 11. Should you buy it today? First, let's take a look at Emera's business.

The business

Emera is a diversified utility holding company based in Nova Scotia with operations in Canada, the United States, and the Caribbean. Emera's businesses include generating, transmitting, and distributing electricity, transmitting gas, and providing utility energy services.

By the end of the first quarter of 2015, its assets were worth close to $10.2 billion and in 2014, it generated revenue of close to $3 billion.

Its core assets include Nova Scotia Power, which makes up 44% of its assets and generates 32% of its earnings, and Emera Maine, which makes up close to 14% of its assets and generates 11% of its earnings. Both are regulated investments. Other regulated investments include Emera Caribbean Inc., Emera Newfoundland/Labrador Transmission, and pipelines. Together, they contribute to 22% of Emera's earnings.

Finally, its non-regulated investments, consisting of Emera Energy and others, make up 35% of earnings. The company targets for 75-85% of regulated earnings, but even with only 65% of earnings generated by regulated investments as of now, Emera's dividends are still very stable.

Emera's strategy

Emera's strategy is to focus on renewables, transmission, gas generation and transportation, and utilities. Initiatives that support Emera's strategy include the Maritime Link and Labrador Island Link, the New England transmission and gas generation, Gas supply in Maritimes, New England, and the Caribbean. Emera is also focusing on the "greening" of power generation and customer affordability.

Emera started investing in the Maritime Link in 2011 and the Labrador Island Link in 2013. From 2014 to 2018 Emera estimates earnings from the combined projects to grow from $18 million to $86 million.

Dividend

Emera's initiatives allow it to pay a steady dividend. At about $43 per share, Emera yields 3.7%. However, that's a historically low yield for the utility. It's not uncommon to capture Emera shares above a 4.3% yield.

That said, the diversified utility is known for increasing dividends. In fact, it has done so for eight years in a row. Its last hike was in the second quarter of this year with an annualized increase of 10.3%. Going forward, Emera displays confidence in its dividend by targeting to grow it at a compound annual growth rate of 6% through to 2019.

If you don't need the income today, you could even enroll in their dividend reinvestment program to get 5% discount on new shares. As of May 2015 34% of shareholders participate in the program.

In conclusion

I'm not encouraging the timing of the market, but around earnings report time, the market can get especially emotional about a company. Emera could go up or down 5% in one day.

Emera's trailing 12-month revenue, earnings, and operating margin show a decline compared with 2014. I see that as a temporary phenomenon as the utility has lots of projects down its pipeline that should increase its revenues and earnings in the future.

Its shares look expensive from a yield perspective, so in my opinion, Foolish investors should wait until its shares decline in price or until it increases its dividend, so that it's at least at a 4.3% yield, before buying this quality, diversified utility.

CATEGORY

1. Dividend Stocks
2. Investing

TICKERS GLOBAL

1. TSX:EMA (Emera Incorporated)

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