Should You Buy Emera Inc. Following its Strong Q2 Results and Dividend Increase?

Description

Emera Inc. (TSX:EMA), one of the largest electric utilities companies in North America, announced strong second-quarter earnings results and a dividend increase before the market opened on August 11, and its stock has responded by rising over 6% in the trading sessions since. Let's take a closer look at the results, the dividend increase, and its stock's valuations to determine if we should consider buying in to this rally, or if we should wait for a better entry point in the weeks ahead.

The results that have sent its shares higher

Here's a summary of Emera's second-quarter earnings results compared with what analysts had expected and its results in the same period a year ago.

Metric	Q2 2015	Q2 2014
Adjusted Earnings Per Share	$0.33	$0.31
Operating Revenues	$537.0 million	$566.6 million

Source: Emera Inc.

Emera's adjusted earnings per share increased 6.5% and its operating revenues decreased 5.2% compared with the second quarter of fiscal 2014. Its strong earnings-per-share growth can be attributed to its adjusted net income increasing 8.6% to $48 million, including a $1.9 million gain from the strengthening of the U.S. dollar.

Its slight decline in revenue can be attributed to mark-to-market impacts, which reduced its revenue by $22.1 million in the second quarter, as well as a combined decrease of $31.7 million at two of its subsidiaries due to lower electricity and fuel prices.

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

1. Regulated utility revenues increased 3.7% to $512.3 million
2. Non-regulated utility revenues decreased 65.9% to $24.7 million
3. Adjusted earnings before interest, taxes, depreciation, and amortization increased 11.2% to $205.9 million
4. Income from operations decreased 34.4% to $36.1 million
5. Net cash provided by operating activities decreased 8.3% to $376 million
6. Weighted average number of diluted common shares outstanding increased 1.7% to 146 million

Emera also announced an increase to its quarterly dividend and its annual dividend-growth target. First, the company increased its quarterly dividend by 18.8% to $0.475 per share, and the next payment will come on November 16 to shareholders of record at the close on business on November 2. Second, the company increased its annual dividend-growth target to 8% per year through 2019, up from its previous target of 6%.

Is the rally warranted and can it continue?

It was a great quarter overall for Emera, so I think the post-earnings rally in its stock was warranted. I also think this could be the start of a sustained rally higher because the stock still trades at favourable forward valuations and because it is one of the top dividend plays in the industry, which will continue to attract new investors.

First, Emera's stock trades at 19.5 times fiscal 2015's estimated earnings per share of $2.35 and 19.8 times fiscal 2016's estimated earnings per share of $2.31, both of which are inexpensive compared with the industry average price-to-earnings multiple of 20.1 and its long-term growth potential.

Second, Emera now pays an annual dividend of $1.90 per share, which gives its stock a 4.15% yield at today's levels. The company has also increased its annual dividend payment for eight consecutive years, and it is currently on pace for 2015 to mark the ninth consecutive year with an increase, and the aforementioned dividend-growth program will allow this streak to reach 13 in 2019.

With all of the information above in mind, I think Emera represents one of the best long-term investment opportunities in the energy sector today. Foolish investors should strongly consider beginning to scale in to positions over the next couple of trading sessions.

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1. TSX:EMA (Emera Incorporated)

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