Worried About the Global Economic Outlook? Hedge Against Uncertainty With Emera Inc.

Description

It has been a difficult year for investors with the commodity crash, and now there is increasing uncertainty surrounding the outlook for China's economy that is weighing heavily on global stock markets. This makes now the time for investors to hedge their portfolios against any further downside risk by investing in defensive stocks.

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One of the best ways to do this is by investing in electric utilities. Because of their wide economic moats, steep barriers to entry, and the steady unchanging demand for electricity, utilities are well positioned to weather the impending economic storm.

Now what?

Diversified electric utility **Emera Inc.** (TSX:EMA) continues to perform strongly despite news that Canada has recently slipped into recession. It has a diversified portfolio of power generating, transmission, and natural gas pipeline assets on the eastern seaboard of Canada and the U.S. as well as in the Caribbean.

The resilience of its business to downturns in the economic cycle can be seen in its second quarter 2015 results. For that period Emera's adjusted EBITDA shot up by 11% year over year despite the difficult operating environment that can be primarily attributed to the collapse in crude and Canada falling into recession. Impressively, Emera reported that operating costs for the same period fell by 6%, indicating that the company is focused on adjusting its operations to ensure they remain profitable despite the poor economic outlook.

Meanwhile, the move to cleaner renewable energy sources is an important tailwind for Emera as the company has interests in a range of renewable energy assets. These include a 50% interest in the Bear Swamp 600 megawatt hydroelectric plant in the eastern U.S. and a 49% interest in a 419 megawatt portfolio of wind energy projects in the northeastern U.S.

This in combination with its generating a considerable amount of its electricity from natural gas-fired power plants also sharply reduces the risks associated with the move by governments away from coal-fired power generation.

Already, a number of North American governments have moved to significantly reduce greenhouse gas emissions. Coal-fired power generation is a key target because it is one of the largest producers of greenhouse gases globally. They are doing this through a range of strategies, including increased carbon levies and stiffer regulations that could force the early retirement of coal-fired plants. This is bad news for those electric utilities such as **TransAlta Corporation** and **Capital Power Corp.,** which rely upon coal-fired power generation to generate a considerable portion of their electricity.

Emera also has a range of projects under development that, over time, will enhance earnings growth and boost its bottom line.

As a result of the ongoing strength of its business, Emera has a strong record of regular divided hikes, and these have continued with the strength of its second quarter 2015 results. Emera hiked its annual dividend by a very impressive 19%, and this is eighth straight year when its dividend has increased; it now yields a juicy 4%. This will allow Emera to continue rewarding patient investors as they wait for its share price to appreciate on the back of stronger earnings as it completes its projects under development and benefits from the transition to cleaner electricity generation.

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So what?

Emera offers investors all of the benefits of a defensive stock coupled with solid growth prospects that, over the long term, will drive higher earnings that should see further dividend hikes and a rising share price. For these reasons, Emera should be a core holding in every investor’s portfolio.

CATEGORY

1. Dividend Stocks
2. Investing

TICKERS GLOBAL

1. TSX:EMA (Emera Incorporated)

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