Emera Inc.'s U.S. Acquisition Makes This Stock Even More Attractive

Description

Emera Inc. (TSX:EMA), the parent company of Nova Scotia Power, has boosted its potential for growth south of the border with the purchase of U.S. energy company Teco for a whopping $10.4 billion. The deal, which effectively doubles the size of the company, makes Emera's stock—already a hit with many long-term investors—even more eye-catching as it skews its assets towards the United States.

The deal boosts Emera's assets to around US$20 billion and its electric and gas customers to more than 2.4 million.

The purchase has been approved by Teco's board of directors and is expected to close by mid-2016 once it has been cleared with federal and state regulators in Florida and New Mexico, where Teco has its operations.

In a statement, Emera noted just how important those new U.S. markets could be for the utility: "Teco Energy's operations are located in vibrant markets experiencing job growth and a strong housing market that are expected to contribute to some of the strongest customer growth in the U.S."

Interestingly, the deal means that 56% of Emera's assets will now be in Florida, followed by 23% in Canada, 10% in New England, 6% in New Mexico, and 5% in the Caribbean. The sale will make Emera one of the 20-largest utilities in North America.

Analysts were keen on the acquisition, including Ben Pham of BMO Nesbitt Burns. "Other than the obvious benefits of increased scale and geographic and regulatory diversification, the acquisition provides access to a future low-risk growing earnings stream and a new natural gas utility platform," said the analyst.

Pham added that while the acquisition metrics appear rich, they are below the level of recent transactions and, more importantly, do not reflect the significant future earnings potential of Teco.

"While we're reiterating our Market Perform rating for EMA given the large financing overhang and deal risk, we see long-term upside as cash flow and dividends rise over time, creating a positive bias for long-term investors seeking an attractive, low-risk growing yield amid a 1.5% bond yield environment," he said.

Emera also notes that its acquisition will be accretive in the first year because Teco has $1.7 billion in net operating tax losses and tax credits. So, no major cost cutting is needed to make the deal financially attractive to shareholders.

Emera currently pays a quarterly dividend of $0.47 per share with a dividend yield of 4.5%. The utility has increased its dividend 11 times since 2007, and has boosted its five-year dividend-growth target to 8% per year.

While the deal may appear risky at first blush, it will mean tremendous opportunities for Emera if they can pull it off. After the acquisition was announced last Friday, Emera announced this week that it had raised $1.9 billion from a group of banks to help pay for the purchase of Teco, a positive sign that the market is also supporting the deal.

CATEGORY

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1. TSX:EMA (Emera Incorporated)

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