Is Emera Inc. a Buy With its 4.5% Yield?

Description

Utilities are typically known for their stable income, so they're great dividend investments. **Emera Inc.** (TSX:EMA) has fallen close to 11% from its 52-week high of $47.5 to about $42. Is it a good time to buy the utility?

First, let's take a look to see if Emera is the kind of business that you want to be a part owner of.

The business

Emera is a utility that generates, transmits, and distributes electricity. It also transmits gas and is engaged in utility energy services.

It has a focus on transforming the electricity industry to cleaner generation and delivering that clean energy to the market. Emera's assets are diversified across northeastern North America and four Caribbean countries.

It has accumulated about $10 billion of assets. In 2014, it generated close to $2.8 billion of revenue. The business has an investable-grade balance sheet with an S&P credit rating of BBB+ and debt-to-cap of 46%.

Recession-proof earnings stability

Emera plans for about 75-85% of earnings to come from rate-regulated businesses. In so doing, most of its earnings are stable and growing steadily.

Since 1998, Emera's earnings per share (EPS) have been in a long-term uptrend. From 2007 to 2014, its EPS increased by a compound annual growth rate of 7.8%. Its earnings actually grew 1% in 2008 and 14% in 2009, so the utility may be recession-proof.

Dividend

This year is the ninth year that the utility has increased its annual payout. From 2006 to 2015, Emera's dividend has increased at a compound annual growth rate (CAGR) of 7.2%. In the last three years, its dividend grew at a CAGR of 6.9%.

With a payout ratio of about 65%, there's a margin of safety for Emera's dividend. Emera's dividend-growth target of a CAGR of 8% through to 2019.

Acquisitions

Emera has successfully completed acquisitions of related assets since 2000. In early September, it announced the acquisition of **TECO Energy, Inc.** It is the biggest acquisition in Emera's history.

The deal will bring Emera's assets to roughly US$20 billion and will make Emera a top 20 North American regulated utility. After the transaction, Emera will have 56% of assets in Florida, 23% in Canada, 10% in New England, 6% in New Mexico, and 5% in the Caribbean.

The transaction will bring Emera's regulated earnings over 80%. After the transaction's first full year of operation in 2017, it will be accretive to Emera's EPS by roughly 5%. And in its third year of operation, it's expected that its percentage will expand to over 10%.

However, some say Emera paid too much for TECO Energy. Emera is paying TECO Energy shareholders a 48% premium to the closing share price of July 15, 2015.

Should you buy today?

There's no question that Emera is a quality and stable utility, but it's priced around a multiple of 18 and is not cheap. Additionally, it would be more prudent for investors to wait to see how the TECO Energy acquisition actually plays out.

A fair entry point would be if the shares pulled back to $39-40 with a multiple of 16.5. That would bring its yield up to about 4.8%.

CATEGORY

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TICKERS GLOBAL

1. TSX:EMA (Emera Incorporated)

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