Little-Known Emera Inc. Is a Dividend Giant

Description

Slow and steady utility company **Emera Inc.** (TSX:EMA) has proven year after year that it knows how to beat the market. Since 2000 shares have grown by over 190%, dominating the TSX index return of just 14.8%. That return figure doesn't even include dividends, which have averaged two times that of the index and currently yield 4.4%.

What's the secret behind Emera's success?

The secret to stability

Emera's biggest advantage is its exposure to regulated utility contracts, which comprise about 80% of earnings. These are long-term contracts with local and regional governments that ensure a set volume of power purchases as well as established pricing with predetermined rate increases. That means relatively assured revenues and earnings growth. It's one of the lowest-risk businesses you can be in.

In Emera's Nova Scotia Power division, it's allowed to have returns on equity of 8.75-9.25%. Other divisions have even higher return clauses, ranging from 9-15%. A reliable double-digit return on shareholder capital allows Emera to compound value tremendously over long periods of time. While these high but capped returns go in and out of style based on investor sentiment, sticking with Emera throughout the years has proven to be very profitable.

A transformational acquisition while sticking with what works

In September Emera announced that it was acquiring Florida-based **TECO Energy, Inc.** (NYSE:TE) for $6.5 billion in cash and $3.9 billion in debt assumption. Fully committed financing is already in place with **JPMorgan Chase & Co.** and **Bank of Nova Scotia**. While the deal will turn Emera into one of North America's 20-largest utility companies, its boring but proven strategy will only be strengthened.

After the acquisition goes through, Emera's portfolio will grow from $7.9 billion to over $20 billion with 56% of assets located in Florida and only 23% in Canada. The rest is spread throughout New England, New Mexico, and the Caribbean. This should help the company diversify its earnings away from Canada, offsetting effects from any currency or economic fluctuations.

More importantly, the acquisition of TECO will actually boost Emera's regulated portion of earnings. The combined company should have no issue keeping 80%+ of the business in reliable income streams.

Business as usual

Following the TECO acquisition, Emera should continue executing its core business plan, which focuses on paying out growing dividend streams generated from regulated earnings. It's not the most glamorous business, but it's profitable. Next year's dividend should be $1.90 a share with a target of 8% annual dividend growth through 2019.

Emera is one of those rare companies that should have no issues meeting its growth targets. If you're an income investor or are just looking to get a bit defensive, Emera shares are for you.

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