Emera Inc. Has Created a Dividend Dynasty

Description

With a dividend history stretching back over 15 years, **Emera Inc.** (TSX:EMA) has a proven ability to please income investors. After increasing its payout by 22.6% last year, shareholders are now getting a yield of 4.1%. Even after increasing its dividend from $0.27 a quarter in 2011 to $0.48 today, the company still has plenty of opportunities for growth.

The new Emera

Late last year, Emera announced that it will be acquiring Florida-based **TECO Energy, Inc.** (NYSE:TE) for $6.5 billion in cash and $3.9 billion in debt assumption. The acquisition is transformational as it will turn the company into one of top 20 utility companies on the continent with assets going from $8 billion to $20 billion.

While Emera was previously levered to the Canadian and northeastern U.S. markets, 56% of revenues will now come from Florida. Only 23% will stem from Canada with the remaining business spread across New England, New Mexico, and the Caribbean.

While the size and geography of Emera's business will change dramatically, the strategy that's provided years of uninterrupted dividend growth has not. Before the acquisition, 70% of the company's revenues were from regulated services, which guaranteed a certain profit margin and price increases. After the acquisition, this reliable portion of sales will actually increase to roughly 80%.

Management also anticipates plenty of room for growth in TECO's markets, which are mainly in regulatory-friendly environments. It expects the rate base (the volume of customers it serves) to grow by 5-7% annually through 2019. So even without any price increases (which are also likely), EBITDA should continue to grow at a healthy clip. These organic growth opportunities should help management reach its long-term 8% annual dividend-growth target.

Free cash flow is ready to pop

While Emera is already free cash flow positive, it should experience a lift in the available capital to return to shareholders over the next few years. In 2016 capital expenditures for the combined company are expected to be around $2.4 billion, a multi-year high.

Following next year, however, a majority of the spending for major growth projects will be completed. Management anticipates capital expenditures falling every year through 2019, ending up at only $1.3 billion. This should free up over $1 billion in extra cash flow a year to put towards share buybacks or increased dividends.

A logical choice for income investors

In all, an investment in Emera seems like a low-risk proposition. The company has grown its dividend by 8.5% annually over the last six years and has a very achievable 8% target moving forward. Around 80% of its earnings are fully regulated, and falling capital expenditures should free up a considerable amount of cash flow after this year.

Following the TECO acquisition, management shouldn't have a tough time creating shareholder value over the next five years.

CATEGORY

1. Dividend Stocks
2. Investing

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1. TSX:EMA (Emera Incorporated)

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rvanzo