Is Emera Inc. a Good Income Investment for Your Portfolio Today?

Description

Emera Inc. (TSX:EMA) is a utility based in Halifax, Nova Scotia. It has assets throughout North America and in four Caribbean countries. It focuses on generating, transmitting, and distributing cleaner and more affordable energy.

Including the acquisition of TECO Energy, completed in July 2016, Emera has about $28 billion of assets, which generate annual revenues of about $6.3 billion.

The acquisition increases Emera's earnings stability because it is expected to increase Emera's earnings from rate-regulated businesses to nearly 85% of its adjusted net income.

Moreover, management expects TECO to be significantly accretive to earnings — 5% accretive to earnings per share this year and 10% accretive by 2019.

Get growing income from Emera

Just like most utilities, Emera offers an attractive dividend. Currently, it yields 4.5%, which offers 73% more income than what a market index offers. What's more to like is that Emera tends to grow its dividend and has the room to do so.

Emera has increased its dividend every year for a decade. The TECO acquisition will boost its earnings and cash flow from operations, which will support its dividend-growth plan. Through 2020, Emera aims to grow its dividend by 8% per year with a reasonable target payout ratio of 70-75%.

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coal-fired power plant, utility

Is Emera a good buy today?

Emera shares trade at just below the midpoint of its 52-week range. So, it may seem that the shares are neither expensive nor cheap.

However, price doesn't tell you whether a business is a good value or not. Studying its valuation metrics will be more telling.

At about $46 per share, Emera trades at a price-to-earnings ratio of 18.7, while the analyst consensus is that the utility will grow its earnings per share by 7.5-9.2% per year for the next three to five years.

Emera also trades at a price-to-operating-cash-flow ratio of 7.6, which is lower than its 10-year normal ratio of 8.6. So, Emera is reasonably valued, if not trading at a slight discount.

Conclusion

Over the long term, Emera tends to outperform the S&P TSX Utilities Index and the S&P TSX Composite Index in terms of total annualized returns.

Since Emera is reasonably valued to slightly discounted today, investors can expect annualized returns of roughly 12% (give or take 2% for any margins of error) for an investment today.

At the same time, you can get a juicy dividend yield of 4.5% which is set to grow 8% per year through 2020.

In conclusion, Emera is a reasonable investment for income, income growth, and total returns and would be a better buy on any further dips. The utility has a strong support at about $44 per share, which is about 4% lower than current levels.

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