Should You Add Emera Inc. to Your Dividend Portfolio?

Description

Utility shares have experienced a dip recently due partly to increasing interest rates. It makes it all the more important to consider utilities which have the ability to grow their dividends at an above-average rate to counter interest rate growth.

In that regard, **Emera Inc.** (TSX:EMA) comes to mind. In the last five years, its dividend per share increased at a compound annual growth rate of 8.7%, and management reassures that strong dividend growth will continue for the next few years.

Emera's above-average growth has also led it to outperform the S&P TSX Capped Utilities Index in the long run. Over the last three- and five-year periods, it beat the index by 7.1% and 5%, respectively, by delivering annualized returns of 17% and 12.4%.

The business

Emera is involved in generating, transmitting, and distributing electricity, transmitting and distributing natural gas, and providing utility energy services. It has operations in North America and four Caribbean countries.

Some of its utilities are in higher-growth markets, which allow higher returns on equity. These include its utilities in Florida and New Mexico, which have returns on equity of 9.25-11.75%.

Dividend and dividend growth

At right below $47 per share, Emera offers a yield of 4.4%. Its annual payout of $2.09 per share implies a payout ratio of about 76%, while the company targets a long-term payout ratio of 70-75%.

In the long run, Emera aims to have 75-85% of regulated earnings, which will improve the predictability and stability of its earnings. Emera aims to grow its dividend per share by 8% per year through 2020. If so, an investment today will have a yield on cost of 6% by 2020.

Emera's plan to invest more than $6.5 billion this year through 2020 will help support its dividend-growth plan. About 98% of the investments will be in regulated operations, which will maintain its high percentage of regulated earnings.

Valuation and returns expectations

Emera tends to trade at a premium multiple. Its normal multiple for the last five years is 17.3. At the recent quotation, Emera trades at a reasonable to fully valued multiple of roughly 17.2 for the estimated earnings-per-share growth of 6.8-8.2% for the next three to five years.

Thomson Reuters's recent report has a mean 12-month price target of $53.20 per share on the stock. This represents upside potential of 13.4%, or total returns potential of 17.8%, including the 4.4% yield from the dividend.

Investor takeaway

Emera is a stable investment for conservative investors who are looking for a growing dividend. Not only does Emera generate largely regulated earnings, but it also has visible growth to support dividend growth of 8% per year through 2020. Currently, Emera starts you off with a 4.4% yield.

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