Fortis Inc. and Emera Inc.: Which Is a Better Investment?

Description

Utilities are known for their stability and dividend growth. In other words, they're great long-term holdings and can serve to reduce the volatility of your equity portfolio.

Among them, **Fortis Inc.'s** (TSX:FTS)(NYSE:FTS) and **Emera Inc.'s** (TSX:EMA) business performance are more predictable and stable because they largely consist of rate-regulated operations. As a result, they are viewed as lower-risk investments because they have less uncertainty in their earnings expectations.

Let's compare the two to see which may be a better investment today.

How much is regulated?

Fortis has about 97% of regulated assets. In the first half of the year, Emera generated nearly 88% of its revenue from regulated operations. In the long run, Emera aims to generate 75-85% of regulated earnings.

Dividend safety

Fortis's payout ratio is expected to be about 65% for this year. Emera has about 90% coverage of its dividend by regulated earnings. Its payout ratio is estimated to be about 80% this year. Fortis's dividend has a bigger margin of safety, but both dividends should be safe.

Dividend growth

Fortis has increased its dividend for 44 consecutive years with a three-, five-, and 10-year dividend-growth rate of 7.1%, 5.6%, and 8.6%, respectively.

Fortis, the 15th-largest North American utility by enterprise value, increased its dividend by almost 6.3% in Q4. The annual dividend per share it paid out in 2017 is nearly 6.6% higher than the one paid in 2016. Fortis plans to increase its dividend per share at an average rate of 6% through 2022.

Emera has hiked its dividend for 10 consecutive years with a three-, five-, and 10-year dividend-growth rate of 12.2%, 8.7%, and 8.4%, respectively. The company increased its dividend by almost 8.1% in Q4. The annual dividend per share it paid out in 2017 is nearly 6.9% higher than the one paid in 2016. Emera plans to increase its dividend per share at an average rate of 8% through 2020.

Volatility in a downturn

The higher the multiple investors pay, the bigger the downside risk. During the last recession, from peak to trough, Fortis stock fell roughly 24%. Emera stock fell 19%.

Fortis went from trading at a premium multiple of about 21.6 to a discounted multiple of about 14. Emera went from trading at a premium multiple of about 17.8 to a discounted multiple of roughly 13.8.

Investor takeaway

Investors who want little uncertainty should consider a position in Fortis. The stock trades at a multiple of ~19.2 at $47.30 per share, and it will be uncommon to find it at a bargain. Long-term investors might consider averaging in to the stock over time, while cautious investors might wait for a meaningful dip before buying.

The fact that Fortis tends to trade at a premium to Emera indicates that it’s higher quality. That said, investors will likely get a little more growth from Emera for the next few years.

At ~48.10 per share, Emera trades at a multiple of ~17.9. At a lower multiple, you can also get a higher yield. Emera offers a yield of nearly 4.7% compared to Fortis’s yield of 3.6%.

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Date
2025/07/28
Date Created
2017/11/08
Author
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