Why Emera Inc. Dipped on Thursday

Description

Emera Inc. (TSX:EMA) announced an equity offering of ~14.6 million shares. It will raise gross proceeds of $700 million at $47.90 per share.

Equity offerings typically reduce earnings per share in the near term. That's why the stock dipped.

At the market close of the day, before the announcement, the stock traded at ~$49.30 per share. Since that's a ~2.9% premium to the purchase price of the equity offering, the stock dipped nearly 3% on Thursday.

The business

Emera's business performance is relatively predictable and stable because its business largely consists of rate-regulated operations. It aims to maintain generating 75% of regulated earnings. Emera stock is typically viewed as a low-risk investment, as it has little uncertainty in its earnings expectations.

Dividend

Other than stability, another key attraction of regulated utilities is the safe dividend. Emera has strong coverage of its dividend.

It has about 90% of its dividend covered by regulated earnings. Its payout ratio is estimated to be about 80% this year. At about ~$47.80 per share, Emera offers a decent yield of ~4.7%.

Emera has grown its dividend for a decade. Its three-, five-, and 10-year dividend-growth rates are 12.2%, 8.7%, and 8.4%, respectively. The company just increased its dividend by nearly 8.1% in the fourth quarter.

The annual dividend per share it paid out in 2017 is nearly 6.9% higher than the one paid last year.

From 2017 through 2020, Emera estimates it has $7.7 billion of investment projects, of which ~97% will be regulated. It's no wonder management plans to grow its dividend per share at an average rate of 8% through 2020.

Is the dip a buying opportunity?

Over the long term, Emera stock has been in an uptrend. This is a good sign. Moreover, it also pays a stable dividend, which fits the bill for income investors.

The Street consensus from **Thomson Reuters** represents~12% upside from the recent quotation. Throw in the ~4.7% yield, and buyers today can get a near-term return of +16% from a stable company.

Investor takeaway

The net proceeds of Emera's equity offering will be used for its growth initiatives and general corporate purposes. Since 2007, Emera has had returns on equity of ~10% or better every year except for one year. This is a nice track record of decent capital allocation. So, the company will probably put the raised capital to good use.

The dip in Emera stock is an opportunity for long-term, risk-averse investors to invest in a predictable company that offers a decent dividend. At ~$47.80 per share, Emera offers a competitive yield of ~4.7% in the utility space.

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