Get a 4.9% Yield From This Utility

Description

Many investors buy utilities for income and to improve the stability of their portfolios. Over the long term, **Emera Inc.** (TSX:EMA) tends to outperform the utilities sector.

The stock has pulled back about 7% from its recent high. The weakness could be an excellent buying opportunity for dividends and stable growth.

Let's see if it's the kind of business you'd like to own.

The company

Emera is involved with electricity generation, transmission and distribution, gas transmission and distribution, and utility energy services with a focus on transforming from high-carbon to low-carbon energy sources. It has an S&P credit rating of BBB+, which is investment grade.

In the last 12 months, more than 95% of Emera's earnings came from its regulated operations. However, in the long run, management aims to generate 75-85% of earnings from its regulated operations.

Its unregulated businesses will do better under extreme weather conditions when natural gas pricesare high and when there is price volatility in the market.

The utility generates 70-75% of its net earnings from the United States. So, it earns more when the U.S. dollar is strong against the Canadian dollar.

A safe, growing dividend

Emera has increased its dividend for 11 consecutive years. It last hiked its dividend at the end of 2017 by about 8.1%. Emera’s five-year dividend-growth rate is about 9.4%.

The utility plans to invest about $7.7 billion from 2017 through 2020. These projects should boost the company’s earnings and cash flow as they come into service. Its capital investments include renewable energy projects, such as large-scale solar projects in Florida.

Management aims to grow Emera’s dividend per share by 8% per year on average through 2020. Emera’s payout ratio is estimated to be under 80%. So, its dividend is sustainable. In the long run, Emera aims to maintain a payout ratio of 70-75%.

What returns can you expect from an investment in Emera?

The analyst consensus from **Thomson Reuters** has a 12-month target of $53.10 per share on the stock, which represents about 15% of upside potential for the near term.

Add in its nearly 4.9% yield, and the near-term total returns jump to almost 20%, which is pretty good for a relatively low-risk stock investment.

Investor takeaway

The meaningful dip in Emera stock is an opportunity for conservative investors to start scaling in. Emera is a relatively low-risk investment with an estimated 12-month return of roughly 20%, which is quite attractive. At the recent quotation of $46.17 per share, Emera offers an above-average yield of almost 4.9%.

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