Emera Inc.: Is it Time to Back Up the Truck?

Description

Emera Inc. (TSX:EMA) stock has fallen about 8% since it reported its fourth-quarter and full-year results, which fellow Motley Fool writer Joseph Solitro discussed here.

Emera reported a loss in Q4?!

What might have scared investors was that Emera reported net loss of $228 million for the quarter compared to net income of $70 million in the same quarter of 2016.

The loss had nothing to do with Emera's business operations. The biggest item that reduced Emera's net income was a $317 million expense, which resulted from the tax reform in the U.S. However, this is a non-cash expense, which will be added to the company's deferred tax liability and be recognized over time.

So, it makes better sense to look at (and keep track of) Emera's cash generated by its operating activities. In 2017, the cash generated by its operating activities was nearly $1.2 billion, which was almost 13.3% higher than the cash generated in 2016.

Also due to the U.S. tax reform, Emera reduced its deferred income tax liabilities by an estimated $1.1 billion. However, these savings are expected to be returned to its customers over time and won't directly benefit the company.

Other drags on Emera stock

There was some dilution on Emera's earnings, as the company had equity issues in August 2016 (in conjunction with the TECO acquisition), December 2016, and December 2017. These dilutions resulted in adjusted earnings-per-share growth of only 3% in 2017 compared to 2016 (when excluding one-time items).

For the December 2017 equity offering, Emera raised capital from the market at the right time — selling its common shares for $47.90 per share, whereas the stock trades +16% lower.

Higher interest rates will likely continue to drag on Emera stock. At the end of 2017, Emera had about $17.6 billion of long-term debt. The company's interest expense in 2017 was $698 million, which was an increase of 19.3% from 2016.

Is Emera a good buy today?

Just before Emera reported its Q4 and 2017 results, I wrote that Emera and the other regulated utilities were getting more attractive. If Emera was a good value then, it's an even better value today.

The analyst consensus from **Thomson Reuters** has a 12-month target of $52.70 per share on the stock, which represents more than 31% upside potential. That said, with what was discussed earlier, analysts will probably lower their near-term targets on the stock.

Emera is a decent long-term investment at current levels. Investors should keep in mind that Emera generates largely regulated earnings and expects to grow its dividend by 8% per year through 2020. At under $40 per share, Emera trades at a decent price-to-earnings multiple of 16.2 and an even more attractive forward multiple of under 15.

Conservative investors should consider scaling into Emera for stable growth and a rich 5.6% yield.

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