Dividend Investors, Embrace the Fall: 1 Utility Stock to Buy Today

Description

As a dividend investor, the past few years have been frustrating. Years of low rates have led investors to buy steady dividend-paying stocks, such as utilities. As a result, the prices of these companies rose to a level where they were often trading at growth stock valuations and paying dividends of only 3-4%.

My basic rule of thumb for Canadian dividend-paying stocks is to only pay a purchase price that gives me a dividend of at least 5%. The recent low interest rate environment had made purchasing these kinds of stocks tricky, as the prices stayed too high to make a purchase worthwhile.

With the recent price pullback in Canadian dividend payers, I finally had the opportunity I was waiting for: a chance to buy these stocks at more reasonable prices. However, the dividend is only half the story. I also want to buy solid companies with growth prospects in terms of both the business and the dividends.

Emera

While there are many reasons why **Emera Inc.** (TSX:EMA) has fallen, it remains a good dividend investment. Emera is an electric utility that operates in Canada, the United States, and the Caribbean, so it provides some geographic diversification. Emera continues to grow both organically and through acquisitions.

Apart from being a dividend play, Emera is also committed to becoming more focused on green energy. In Canada and the United States, Emera is converting old oil and coal power plants to ones that use natural gas—a cleaner energy source. In Florida, the company is constructing a solar power-generation facility. In the future, it aims to have electric car charging stations built.

Emera has been paying steady dividends for years. Emera yields approximately 5.5% at current prices and has committed to growing that payout by 8% a year through 2020. Emera has a strong financial track record with a 12% compound annual growth rate of operating cash flows for the past 10 years, supporting its 8% dividend-growth forecast.

The main risk with Emera is the significant amount of debt it has incurred due to acquisitions, such as the U.S.-based TECO

, although this does not appear to impact the quality of its dividend. Since more than 75% of its earnings are regulated, Emera has relatively clear cash flow visibility to continue paying dividends and to reduce its debt.

At these price levels, buying Emera will provide dividend investors with stable income and a degree of geographic diversification. The company's commitment to becoming a greener company and growth profile make it an attractive company to own. Emera definitely deserves a place in dividend investors' portfolios as a long-term hold.

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krisknutson